FINANCIAL TIMES

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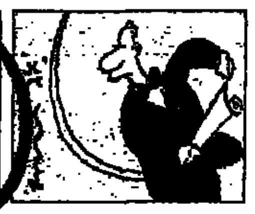

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Recent catastrophes are a global wake-up call
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Birth of the euro

NEW FT STATISTICS
Today the FT starts daily coverage of key financial statistics relating to the birth of the euro. A four-page guide to the new service begins on page 33.

Chirac and Kohl under fire for bank compromise

EU's achievement in getting single currency off the ground is praised

By Lucy Smy in Bonn and Robert Graham in Paris

Political controversy continued yesterday over the deal on the presidency of the European Central Bank struck at the weekend summit in Brussels, despite a favourable reaction from Europe's financial markets.

Helmut Kohl, the German chancellor, came under fire from a Bundesbank council member, opposition Social Democrats and the European Parliament for bowing to French pressure in agreeing that the Dutchman Wim Duisenberg will make way after four years for France's Jean-Claude Trichet.

Some French politicians criticised President Jacques Chirac for his triumphalist presentation of the German concession. But others drew attention to the EU's achievement in launching the euro.

"The attitude of the head of state gave the impression there was a deal in favour of France, when it was in favour of Europe. This rendered no service to the cause of constructing Europe," said the Socialist party leader, François Hollande.

The official spokesman for Tony Blair, UK prime minister, commented that the markets had reacted to the deal "with rather greater maturity than the media" and said: "We got the right decision in the end. A fudge and a fix was actually avoided."

In Berlin, Klaus-Dieter Kühbacher, a Bundesbank Council member, said the deal violated the European Union's 1992 Maastricht Treaty. But when asked what action the Bundesbank could take in response to the compromise, he replied: "Nothing at all. This is up to the governments... Today we should have been celebrating this historic day, but they ruined it."

The SPD said the deal had cast doubt on the central bank's independence and on the chancellor'sclaims that only he could safeguard German interests in Europe.

Mr Kohl, whose posters for Germany's September 27 general election feature the slogan "for a strong euro", dismissed all the criticism. The financial markets had reacted well, he said, noting that by mid-morning the dollar was slightly weaker against the D-Mark in Frankfurt.

He said Mr Duisenberg's decision to stand down during his eight-year term was a personal one. "We named the best man for the job. It is his decision to stand down and I must respect it."

Theo Waigel, German finance minister, said: "The independence of the central bank has of course been assured."

However, Mr Kohl could not quell criticism that suggested last Saturday's wrangle had weakened his electoral position and his standing in Europe.

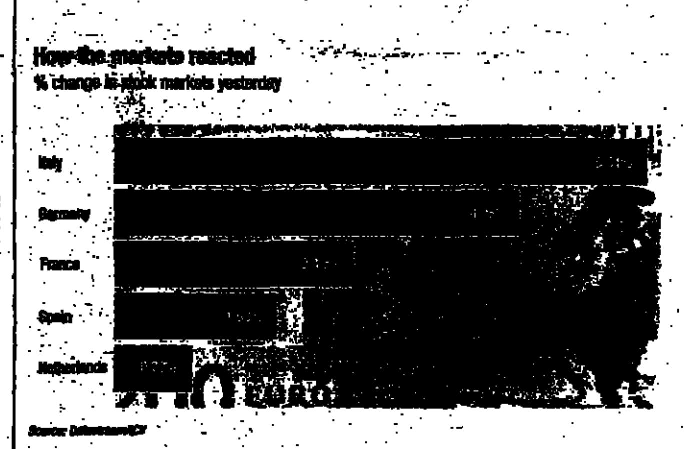
Ingrid Matthäus-Maier, an SPD member of parliament, said: "Kohl is badly weakened domestically and no longer has the clout to get things done abroad." Erwin Huber, the Bavarian finance minister and a senior member of the Christian Social Union, sister party of Mr Kohl's CDU, also criticised the compromise. He said Bavaria would be "the critical watchdog" over the euro's future stability.

German newspapers were scathing. The mass circulation daily Bild headlined its coverage: "A rotten compromise". The liberal Süddeutsche Zeitung commented that Mr Kohl "left the euro battlefield damaged".

Theo Waigel, German finance minister, blows a horn to mark the start of a railway building project near Augsburg yesterday. Mr Waigel said: 'The independence of the central bank has of course been assured.' Picture: Reuters

Markets are undeterred by Brussels fudge

By Simon Kuper, Vincent Boland and Jeffrey Brown in London



Source: Datastream/ICV

Financial markets yesterday reacted favourably to the launch of Europe's single currency and showed little concern at the fudged deal to choose the first head of the European central bank.

The D-Mark dropped initially against the dollar but later recovered all its losses, while European bonds fell only modestly and stock markets surged.

Many London currency traders had been called in to work on their bank holiday, as the market prepared for a frenzy that never materialised. The D-Mark shed 1 pfennig against the dollar in early trading, but by late US trading had recovered to DM1.7803, only 0.1 pfennigs below its Friday London close.

Perhaps the main effect of the row over the ECB presidency on the markets was to increase belief that European interest rates would rise soon.

Some strategists said the Bundesbank might raise German rates in order to support the D-Mark and underline that European monetary policy will remain tight. The Bundesbank had warned against a fudge over the ECB presidency.

European government bond markets fell slightly on the belief that Europe faced higher interest rates, which are invariably bad news for bonds.

The yield on 10-year German bunds rose four basis points to 4.95 per cent, but it remains below the important 5 per cent level.

European share markets surged, mostly in reaction to a stronger Wall Street. Analysts said the gains had been mostly driven by a post May Day catch-up. By theEuropean close yesterday, the Dow Jones Industrial Average had put on more than 300 points since Wednesday.

Rescue moves closer for Crédit Lyonnais

By Samer Iskandar in Brussels

The European Commission yesterday moved closer to agreeing a proposed French aid package for Crédit Lyonnais, the troubled bank, after the French government offered further concessions.

"Progress has been achieved over the weekend... in particular regarding compensatory measures, on the basis of new proposals by the French authorities," the Commission said.

Jacques Santer, president of the Commission, helped avoid a deadlock in negotiations. Last week he reassured the French authorities that a compromise was within reach and that Brussels was seeking a solution to ensure the viability of the bank.

The French plan to provide at least FFr100bn ($16.4bn) in aid had been held up by a dispute over the sale of assets. Until last week the Commission had contested the terms of a French proposal to sell FFr620bn of bank assets. It claimed some of the assets had been counted twice.

The breakthrough was reached as Karel Van Miert, European competition commissioner, and Dominique Strauss-Kahn, French finance minister, met during the weekend summit that finalised the launch of European economic and monetary union.

A Commission official said the French government had suggested "additional asset sales". These are believed to include banking operations mainly in Asia.

In return, Brussels is thought to have been more lenient towards sales of Crédit Lyonnais' European assets. In the past, the Commission had demanded that Crédit Lyonnais sell most of its European operations outside France. Yesterday, the official said Mr Van Miert understood that the bank "wants to keep some operations in London and Luxembourg".

However, Crédit Lyonnais would have to give up its Belgian operations and sell BfG, its German subsidiary.

The Commission and the French authorities are also in agreement over plans to privatise the bank before the end of next year.

Mr Van Miert, who would prefer a sale to the highest bidder, seems to have softened his stance. The official said Mr Van Miert's main concern was that the privatisation was undertaken in "an open and transparent" manner.

This does not rule out a stock market flotation, which is Mr Strauss-Kahn's preferred solution. Mr Van Miert will tomorrow inform his colleagues of the latest developments, at the Commission's weekly meeting.

"It is now necessary to check and complete certain aspects that are still pending," the Commission's statement said.

No rush to merge, Page 24

WORLD NEWS

Credit Suisse says it has settled with Holocaust survivor over family money

Credit Suisse, the Swiss banking group, said yesterday it had settled a claim by Holocaust survivor Estelle Sapir, now 80, that it had turned her away and kept her family's wealth when she could not produce a death certificate for her father, who perished in a Nazi death camp.

Price rises for angry Indonesians
Indonesia's president Suharto risked further unrest by raising fuel, transport and electricity prices as part of his pledges to the International Monetary Fund. Page 22

US push for Tokyo stimulus
Washington will use a series of international meetings, starting with talks among the Group of Seven industrialised countries in London, to increase outside pressure on Japan to make good its promise to stimulate its economy and help the rest of Asia weather the economic crisis. Page 10

Mayor to challenge Netanyahu
Tel Aviv's mayor Roni Milo said he would quit Israel's governing Likud party to challenge Benjamin Netanyahu for the premiership through a new centrist party. Page 7

Romania pledges IMF accord
Romania's new prime minister, Radu Vasile, pledged that the country will reach an accord with the International Monetary Fund by June 15 on a loan agreement. Page 5

Waves from Canada water deal
Canada's fresh water could become subject to international trade regulations after Ontario issued a permit for a small company to draw water from Lake Superior for export to Asia. It raised fears Canada could be obliged to sell water to the US under the North American Free Trade Agreement. Page 10

Croatian nationalist leader dies
Croatian defence minister Gojko Susak, leader of the nationalist faction in the ruling party, has died of lung cancer. Page 5

Thai central bankers resign
Thailand's central bank governor and several deputies resigned ahead of the release of an official inquiry into alleged mismanagement of the economy before last year's baht devaluation. Page 8; Observer, Page 21

Life without parole for Unabomber
"Unabomber" Theodore Kaczynski was sentenced in Sacramento, California, to four terms of life in prison without parole for a 17-year campaign of anti-technology bombings that killed three people and maimed more than 20 others.

Book award for Patti Waldmeir
Patti Waldmeir, FT Washington correspondent and former South Africa correspondent, was last night presented with the 1998 New York Public Library Helen Bernstein award for her book on South Africa, *Anatomy of a Miracle*. The award is made annually for excellence in journalism. The book is published by W.W. Norton in the US and Viking/Penguin in the UK.

BUSINESS NEWS

Loss-making Saab halts car output as Danish strike hits parts suppliers

Saab, loss-making Swedish automotive group 50 per cent owned by General Motors of the US, halted car production after running out of essential components from Danish plants hit by a week-old national strike. Page 23

Hoechst, German chemicals and pharmaceuticals group, said it might float two businesses making organic chemicals and polymers with combined sales exceeding DM10bn ($5.4bn). Page 23

NationsBank, North Carolina bank, was fined $6.75m by US regulators for mis-selling risky securities to elderly customers. Page 10

Dana Corporation, US automotive components manufacturer, emerged as a "white knight" bidder for car parts maker Echlin. Page 23; Lex, Page 22

The Dow Jones Industrial Average could cause disruption if it tops 10,000, industry analysts warned, because much computer software can deal only with four-digit index figures. Page 22

SE Banken of Sweden pulled out of the race to take over Polish Development Bank, leaving the field clear for Poland's Export Development Bank. Page 24

Gildemeister, German machine tool company, has teamed up with two big US equipment makers in long-term supply deals. Page 26

Lloyd's of London insurance market may overhaul its centuries-old system of capital provision by which underwriters raise fresh funds each year. Page 12

KNP, Dutch packaging group, has five bidders competing to buy its corrugated cardboard operations in a deal estimated to be worth about Fl 3bn ($1.5bn). Page 24

Christiania Bank, Norway's second largest bank, launched a NKr19bn ($2.6bn) bid for Storebrand, the country's biggest insurer. Page 24

Cinven, UK venture capital group, has raised £1.5bn ($2.5bn) from 50 international institutions to invest in buy-outs in the UK and continental Europe. Page 30

Lafarge, French building materials group, launched a FFr4bn ($650m) disposal programme to finance its expansion in emerging markets. Page 23

Farah, US clothing company, agreed to a $93m takeover by Tropical Sportswear International, a US maker of own-label casual clothes. Page 23

Cisco Systems, US internet networking company, said it had agreed to purchase Class Data Systems, a private networking start-up company based in Israel and California, for $50m. Page 29

World Equity Markets
The latest trends and data from more than 50 national markets at a glance
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WORLD MARKETS

STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	9,234.51	(+87.44)
S&P Composite	1125.95	(+5.95)
Europe and Far East		
CAC40		
DAX		
FTSE 100		
Nikkei		
US LUNCHTIME RATES		
Federal Funds	5.43%	
3-mth Treas Bills: Yld	5.048%	
Long Bond	102½	
Yield	5.940%	
OTHER RATES		
UK: 3-mo Interbank		
UK: 10 yr Gilt		
France: 10 yr OAT		
Germany: 10 yr Bund		
Japan: 10 yr JGB		
NORTH SEA OIL (Argus)		
Brent Dated	$	

GOLD	
New York: Comex	
(Jun)	$305.4
London	
	$
EXCHANGE RATES	
Dollar	
New York lunchtime	
£	
DM	1.78015
FFr	5.9695
SFr	1.49
Y	133.05
London closed:	
£	
DM	
FFr	
SFr	
Y	
Tokyo Closed	
Sterling	
DM	

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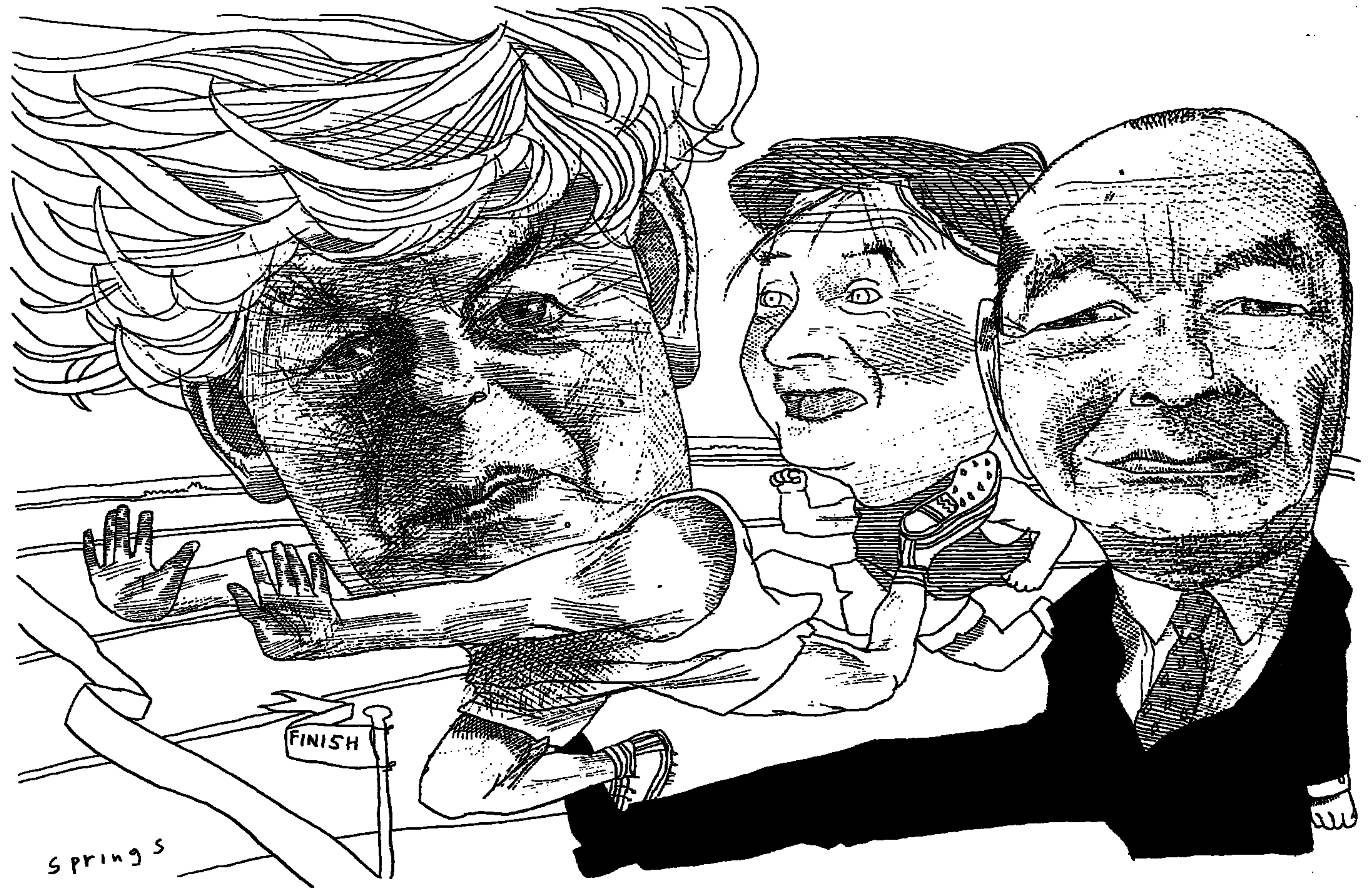
WORLD NEWS

EUROPEAN MONETARY UNION

The euro: single currency, multiple injuries

Lionel Barber recounts the race for the ECB presidency and the price of Chirac's insistence on a Frenchman



On the evening of November 3 last year Jean-Claude Juncker, the youthful prime minister of Luxembourg, received an urgent telephone call from President Jacques Chirac of France.

A European Union summit on employment was barely a fortnight away. Juncker, who would chair the meeting as holder of the rotating EU presidency, assumed that the call was related. He could not have been more wrong.

Chirac announced that he was about to nominate Jean-Claude Trichet, governor of the Bank of France, as president of the future European Central Bank. The ECB was to be based in Frankfurt, Germany. It was "normal" that the top job should go to a Frenchman.

Juncker was stunned. He had assumed the post of ECB president – the most powerful unelected job in the European economic and monetary union – would go to Wim Duisenberg, the Dutch central banker who enjoyed the support of 14 EU governments.

Juncker asked whether Chirac had informed Chancellor Helmut Kohl of Germany or Wim Kok, the Dutch prime minister. No, came the reply. Juncker requested that the Elysée contact Kok, who was travelling in New Zealand. He would deal with the Germans.

The Luxembourgers were left open-mouthed by the French démarche, but the Dutch were outraged. Kok, woken up early in the morning on the other side of the world, took the call from Paris calmly but exploded in his next conversation with *The Hague*.

Duisenberg was equally amazed. He had just presided over an informal meeting of EU central bank governors in Frankfurt at which Trichet had been present. Not a word had been said.

The next morning he received Trichet in his office. Why did you do this? he asked.

Trichet explained that this was the way the French worked. When the president of France asks a civil servant to do something, there is no choice but to obey.

So that is as far as the independence of the central bank goes, Duisenberg replied.

Coup d'état

Six months later, at the end of a momentous weekend summit in Brussels, the battle over the appointment of the first ECB president has ended in an uneasy compromise.

Duisenberg has agreed "voluntarily" to step down half way through his eight-year term. The French have won a political commitment that Trichet will be his successor.

Set against the genuinely historic decision to proceed with Emu, the battle over the ECB appointment looks a minor affair.

But the story offers a rare insight into the manner in which Europe's leaders conduct business. It also reveals the tensions between elected politicians and unelected central bankers whose power has expanded exponentially in a world of monetary orthodoxy and liberalised capital.

It is also a story about the decline of Helmut Kohl, Europe's premier statesman and one of the architects of Emu, and his uneasy relationship with Jacques Chirac, an unpredictable, impulsive character who has confounded allies at home and abroad with high-risk gambles which have never quite paid off.

The origins of the ECB row do not, however, lie in French or German politics. They go back to the spring of 1993 when EU leaders were casting around for a suitable candidate to head the European Monetary Institute (Emi), the body in Frankfurt charged with managing the transition to the single currency.

Most EU central bankers favoured Duisenberg. But he turned down the approach. A bon viveur with a weakness for strong cigarettes, he was comfortable as governor of the Dutch central bank.

Colleagues suspected there was another reason: he shared their doubts about whether Emu would ever get off the ground.

EU leaders were dismayed. *The Maastricht treaty stipulated* that the Emi had to start operations on January 1 1994. In desperation, they turned to Alexandre Lamfalussy, the professorial former president of the Bank of International Settlements in Basle; but he, too, turned down the job.

Lamfalussy said he was almost 65, young enough to take on a three-year term at the Emi but too old to move on to the job of president of the ECB – a job which, he confessed, he would have killed for had he been a few years younger.

However, the Belgian government eventually broke Lamfalussy's resistance. As holder of the rotating EU presidency, it needed to settle the Emi job and settle a long-running debate about where to locate the future ECB and a dozen other EU agencies.

The final deal was struck in October. At German insistence, the bank went to Frankfurt. Lamfalussy accepted the Emi job, but on two conditions: first, that he could leave early if things did not work out; and, second, that he would make no commitment to seek another three-year term.

Lamfalussy feared that a delay in Emu beyond the target launch date of January 1 1999 would leave him stuck at the Emi. But if Emu went ahead on schedule but EU leaders could not agreed on an ECB president he could find himself press-ganged into serving the full eight-year term mandated by the Maastricht treaty.

Hence his insistence on a firm date for retirement to focus minds on a successor who would be well-placed to take over when the Emi metamorphosed into the ECB on July 1 1998.

The idea of building a bridge between the Emi and ECB jobs was logical. The transition to the irrevocable fixing of exchange rates among Emu qualifiers on January 1 1999 was a period of maximum uncertainty in the financial markets. The post of Emi/ECB president would be a point of continuity.

Yet the economic logic of a seamless changeover was politically tricky. The Maastricht treaty stipulated that central bankers had the power to recommend a nominee for Emi president which EU heads of government would approve by unanimity. The ECB job was also subject to the same unanimity but, crucially, the right to recommend a nominee lay with EU finance ministers.

In early 1996, Lamfalussy reminded his colleagues that he intended to leave by the end of the year. He had several conversations with Hans Tietmeyer, president of the Bundesbank, who urged him to stay on.

However, in late April, he received a call from Duisenberg who said he was ready to take the job. Tietmeyer had exerted pressure on him to take the job.

Duisenberg said he had to consult the Dutch central bank and his wife. In Washington, in the margins of the IMF-World Bank meeting, Tietmeyer had one question: "Have you asked your wife?"

At last, Duisenberg gave a clear commitment, albeit with two conditions. First, he did not want to move to Frankfurt until July 1 1997 – six months later than scheduled. The Netherlands was due to take over the rotating EU presidency on January 1 1997 and Duisenberg said he did not want to leave during this period – not least because the Amsterdam summit was due to be held in the Dutch central bank.

The second condition was even more important: Duisenberg wanted a reasonable assurance that he would move from the Emi to the ECB. His central bank colleagues agreed unanimously, and proceeded to sound out their national governments within an agreed 10-day deadline.

All but two of the 15 governments gave a positive response: France and Italy. The latter failure was understandable because the government of Lamberto Dini had fallen: but the silence from France was ominous.

Trichet blamed his own poor relations with Chirac and the Gaullist-led government. Neither was enamoured with his tight monetary policy. As a sign of support, Trichet wrote a personal note of support for Duisenberg which the Dutchman later deposited in his personal safe.

On Monday May 13, EU central bank governors blessed the deal. Lamfalussy agreed to stay on for another six months. Duisenberg was unanimously approved by his colleagues and the announcement came the next day.

Jacques Santer, president of the European Commission, would later describe the attempt to engineer the ECB succession as a central bankers' "coup d'état". There were grumbles at a meeting of EU finance ministers on the following Monday.

But the man most outraged was Jacques Chirac.

> **The story offers a rare insight into how Europe's leaders conduct business and reveals the tensions between elected politicians and unelected central bankers whose power has expanded exponentially in a world of monetary orthodoxy**

Enter Monsieur Trichet

Chirac heard the official confirmation of the Duisenberg appointment on May 14 when he was attending an Anglo-French summit in London with John Major, the UK prime minister.

Yves-Thibault de Silguy, EU monetary affairs commissioner, tracked down a top Chirac adviser in London: his advice was to torpedo Duisenberg on the grounds that it was a transparent attempt to engineer the ECB succession. But he was advised that central bankers were in line with the treaty.

An internal Elysée memorandum drew up two options: either to veto Duisenberg or to accept with reservations, signalling that the Emi appointment in no way prejudiced the decision on the ECB presidency.

Chirac raised his concerns at the Dublin summit in December 1996. But the meeting was dominated by a titanic clash between the French and the Germans over the terms of the Stability Pact for enforcing budgetary discipline in the future euro zone, if necessary through draconian sanctions.

Kohl and Chirac, their faces almost touching, tore into each other. After 17 hours of negotiations, the Stability Pact was renamed the Stability and Growth Pact to take account of French demands that more attention should be paid to job creation. When Chirac slipped in his reservations about the ECB succession, few took the gesture at face value.

Shortly afterwards, Chirac confided to de Silguy that he had a French candidate for the ECB job: Michel Camdessus, the managing director of the International Monetary Fund.

Chirac dropped several hints about the ECB job but never explicitly asked Camdessus to leave Washington. When rumours appeared in the press, Camdessus, who had just been appointed to a third term at the IMF, made clear he preferred the world stage to Europe. The Asian financial crisis, which erupted last summer, killed off any lingering hopes of persuading Camdessus to move.

So Mr Chirac was left with two choices: Jacques de Larosière, the former head of the Bank of France and the IMF and soon-to-retire as head of the European Bank for Reconstruction and Development; and Jean-Claude Trichet. Neither was ideal.

De Larosière was nearing 70 and a well deserved retirement. Trichet had impeccable credentials as a central banker; but his attachment to hard money and high interest rates had made him unpopular with both the left and right in Paris.

Chirac was searching for a means of reasserting his authority at home. In the spring he had gambled on early parliamentary elections, only to see his Gaullist-UDF government crushed by a Rainbow coalition led by the Socialists. What better ruse than to put Trichet up for the top ECB job, wrapped in the tricolour, and force Lionel Jospin, the new prime minister, to go along?

When Jospin hesitated, Chirac warned him that he risked undermining the interests of France – a remark which some aides to the prime minister took as a threat to leak the matter to the press. So Jospin went along reluctantly, though he would later exact his revenge.

Dominique Strauss-Kahn, the powerful economics and finance minister, was even more dismayed. He knew the Germans would be infuriated by the Trichet nomination. He was more interested in winning Bonn's support for strengthening the Euro-X club – the informal grouping of euro zone finance ministers – as a political counterweight to the ECB.

But Chirac prevailed. In mid-October Trichet was summoned secretly to the Elysée to see the president and to the Matignon to see Jospin. He accepted the nomination without reservation.

Denouement

Chirac announced his démarche on November 4, the day before Kohl was due in Paris. French officials say Kohl was forewarned at the regular Franco-German summit in Alsace Lorraine a fortnight before.

German officials are less clear, though it seems that Kohl did not try to dissuade Chirac from plunging ahead. At the Luxembourg summit on employment, the chancellor expressed regret that the ECB presidency had turned into a matter of prestige and called for a wise compromise.

Enter Jean-Claude Juncker and the Luxembourg presidency of the EU. In Dublin, 12 months before, Juncker had played an invaluable role as mediator between Kohl and Chirac on the Stability Pact.

He intended to try for a repeat performance. But he was diverted by two other EU rows: Turkey's bid for membership of the EU and Britain's demands for access to the Euro-X club.

At the Luxembourg summit, Tony Blair, the British prime minister, spent six hours wrangling with the French over Euro-X. Tempers frayed. Chirac's officials bad-mouthed Blair as a Labour version of Margaret Thatcher. Juncker, who had hoped to produce a compromise involving early retirement for Duisenberg, kept the deal in his pocket.

Early in the New Year, at the instigation of Kohl, Juncker made a fresh effort to break the deadlock. One option was to introduce a mandatory age for retirement for the ECB president such as 67, mirroring similar rules at the Bundesbank.

Another idea was to obtain an assurance from Duisenberg that he would leave half-way through his term to make way for Trichet.

Chirac dug in. He knew Duisenberg's birthday by heart: June 9 1935. A message came from Paris: surely the most elegant solution would be for him to retire on June 9 2000, his 65th birthday.

Duisenberg grew frustrated. He had nothing against the French. He spoke the language and had a house in the Provence. He had even been awarded the Legion d'Honneur, in recognition of his role in supporting the French franc during the wave of currency speculation in 1992-93.

But he was also a proud man: he was not prepared to go on bended knee to the Elysée to win Chirac round. He saw that as an affront to his professional integrity and the independence of the future European Central Bank.

He was also baffled by reports from Paris that Chirac's opposition was not personal but was largely linked to the French president's distaste for the Netherlands' soft drugs laws.

The battle over the ECB was to become a war of nerves between the French, Dutch and Germans. At this point, the British, who held the rotating EU presidency, began to become worried.

On May 1-3, the EU was due to select the founder members of Emu, the most important development in Europe since the fall of the Berlin wall. Failure to agree on the ECB presidency risked turning the Brussels summit into a fiasco which could unsettle the financial markets.

> **It is an account of the decline of Helmut Kohl, one of the architects of Emu, and his uneasy relationship with Jacques Chirac, an impulsive character who has confounded allies with high-risk gambles that never quite pay off**

Blair inquired whether Britain could act as honest broker, but was told politely that this was a matter between the Dutch, French and Germans. All would be sorted out.

The Brussels summit

Early on Saturday afternoon, May 2, Blair formally convened the Brussels summit to decide the founder members of monetary union and the ECB presidency. But instead of starting with a lunch for all EU leaders, he broke off and convened a meeting between Chirac, Jospin, Kohl and Kok.

British officials explained that Blair – with one eye on the recent breakthrough in the Northern Ireland peace talks – calculated that it would be impossible to settle differences with 15 heads of government round one table.

Soon the differences between the Dutch, French and Germans emerged. Chirac was adamant that Duisenberg should be out of the ECB by January 1 2002. Kok held firm. Kohl was uneasy. Blair telephoned Duisenberg. The Dutchman repeated earlier private assurances that he would step down early but at a time of his own choosing.

As the meeting dragged on, other EU leaders began to feel left out. Juncker made a couple of acid remarks. Jean-Luc Dehaene, the Belgian prime minister, threatened to convene a separate lunch in central Brussels.

By late afternoon, Kohl, Kok and Chirac appeared to be coming round to June 2002, the final date for the switch-over from national currencies to euro notes and coins. Blair checked with Duisenberg who said he was happy, subject to a text. Kohl appealed for a reasonable solution.

Then something went wrong. Duisenberg, who had reportedly had contacts with Tietmeyer, stiffened his opposition to a precise date. Gerrit Zalm, the Dutch finance minister, also urged Kok not to accept a date. He was worried about how a fudge would appear in the Dutch general election on May 6.

But the most surprising shift came within the German delegation which included Kohl, Klaus Kinkel, foreign minister, Theo Waigel, finance minister, and Tietmeyer. "Kohl was turned over," says one insider.

German disarray emerged during a one-hour meeting with the Dutch delegation. By the time Blair spoke again to Duisenberg in person, French demands for a firm departure date had run into a dyke of resistance.

Pressure on Chirac to strike a deal was mounting. Jospin had left for New Caledonia, in effect daring Chirac to veto Duisenberg and provoke a Dutch veto of Trichet which would have wrecked the summit. Blair warned Chirac that the search for a third candidate would create uncertainty.

Finally, Blair came up with a formula which EU lawyers had devised some time before: Duisenberg would make a personal, voluntary statement that he would take early retirement. He would read out the statement to EU leaders in the summit conference room.

It was a memorable moment – nothing as dramatic as the birth of the euro but a reminder that the new central bank would be accountable to the politicians. Chirac had made his point – and he had secured a commitment that the next ECB president would be French.

Yet Chirac had pressed the French cause with scant attention to the re-election interests of a hard-pressed Helmut Kohl, nominally his closest ally and the man who has made a career of subjugating German national interests in the name of Europe. It was a high price.

EMU LAUNCH QUESTIONS FOR NOMINEES

Euro-MPs to attack ECB compromise

By Michael Smith in Brussels

The deal on the presidency of the European Central Bank reached at the Brussels summit at the weekend was strongly criticised by European parliamentarians yesterday as the parliament's legal services department prepared a recommendation on its legality.

The department has been asked by the Socialist group to give its advice by Thursday, when a leading committee is due to start questioning the nominees for the executive board, including Wim Duisenberg, nominated for the presidency.

The European Commission, the EU's executive, yesterday insisted that the deal by which Mr Duisenberg has agreed to step down mid-way through his eight-year term, did not infringe EU treaties.

Senior MEPs said it was unlikely that the parliament would be able to mount a legal challenge. Most agreed that, although parliament may give an opinion on the nominees, it has no powers to block the deal.

"We will be extremely careful about doing something which could damage the euro," said one.

None the less, many MEPs agreed with José Maria Gil-Robles, the parliament's president, that the agreement violated the spirit of the Maastricht treaty.

Pauline Green, leader of the Socialist group, expressed concern that "poor old Duisenberg" had had to stand up and say he had been subject to no political pressure. "It makes you want to start a campaign to free the Frankfurt One."

She described the weekend deal-making as "unacceptable shenanigans".

Among members of the economic and monetary affairs committee which questions bank nominees on Thursday and Friday, Heidi Hautala, a Finnish Green member, said she thought "we should look at possibilities to block the deal. It threatens the independence of the central bank".

Christia Randzio Plath, a German Socialist, said the deal was an expression of the weakness of President Jacques Chirac of France and Chancellor Helmut Kohl of Germany. However, she said, "Duisenberg can be as independent as he wants to be. There is no threat to his independence." She said the parliament had no powers to block the appointment.

Jan Kees Wiebenga, a Dutch Liberal, said that the deal was not the best possible but "for me it was acceptable" and it was constitutional. "Any other appointment would have been worse," he said. A rejection by parliament of the deal would jeopardise the start of the euro, he said.

Ingo Friedrich, a representative of the Bavarian Christian Social Union (CSU), said the deal cast a shadow over the start of the euro. But the currency would be a success and parliament would accept the board nominees.

The economic and monetary affairs committee will decide in Strasbourg next Monday on their recommendations to the full parliament. The parliament will vote on the Wednesday.

Green: 'Free the Frankfurt One' Ashley Ashwood

ECB WATCH A SIGH OF RELIEF FROM BANKERS AS FIRST EURO-ZONE FIGURES ARE RELEASED

Markets unperturbed by Duisenberg row

By Wolfgang Münchau in Frankfurt

European central bankers yesterday breathed a sigh of relief: the financial markets were scarcely concerned with the controversial deal to appoint Wim Duisenberg as head of the European Central Bank for a truncated term.

Compared to the excited political reaction over the ECB board appointments, markets took the view that the ECB's credibility will not be much affected, one way or the other.

Graham Bishop, special adviser on economic and monetary union at Salmon Brothers in London, said: "The real question is: does it matter? Will a board of 17 members, of whom Duisenberg is one, conduct policy in a different way simply because he has a term of four as opposed to eight years? Of course not."

Mr Duisenberg's "voluntary" declaration at the EU summit that he would retire approximately half-way into his eight-year term is still seen as a shoddy compromise. But the markets seem to have concluded that this compromise may have damaged the politicians more than the ECB.

EU central bankers view credibility as a complex issue. It takes time to build and destroy, and it derives from consistency, not brutality. Personalities matter, but only inasmuch as they help the consistency of monetary policy. In that sense the appointment of Mr Duisenberg for four years, to be followed by Jean-Claude Trichet, the governor of the Bank of France, for eight years, will make for greater consistency.

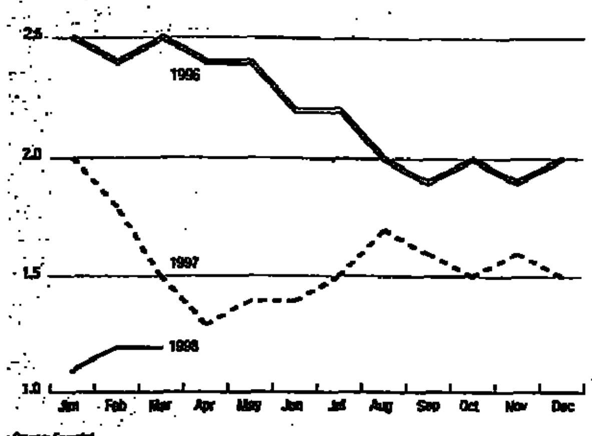
And so did the appointment of the other board members, especially those of Otmar Issing, the Bundesbank's chief economist, and Tomasso Padoa Schippoa, the Italian economist and one of the intellectual godfathers of Emu.

The economic backdrop also makes it extremely unlikely that the ECB will embark on a course of punitive monetary tightening.

Eurostat, the EU's statistical office, published the first statistics for the euro-zone yesterday. Consumer price inflation for the 11-country region stood at 1.2 per cent in March, unchanged from February, and down from 1.5 per cent in March 1997.

The data show that the monetary environment into which the ECB is born is relatively benign. The level of interest rates is bound to rise from current levels – maybe as early as this month – but the monetary environment does not give European central bankers much leeway to play credibility games.

EMU annual % inflation
Consumer prices for the euro-zone



Source: Eurostat

Consumer prices for the eleven participating states

	Year to March 1998
EMU	1.2*
Germany	0.6
France	0.8
Belgium	1.0
Austria	1.0*
Luxembourg	1.3
Ireland	1.5
Portugal	1.5
Finland	1.8
Spain	1.7
Italy	2.1
Netherlands	2.2*

* Provisional

Vending machine makers lose 50 cent battle

By Michael Smith

A campaign by vending machine operators to press the European Union to increase the thickness of proposed 50 cent coins for the single currency appears to have ended in failure.

EU ministers accepted recommendations at the Brussels summit at the weekend by the European Commission to stick to original plans on the coins in spite of vending operators' complaints that they would lead to fraud. The Commission had ordered a redesign when the vending industry said earlier this year that machinery would find it difficult to distinguish between 50 and 20 cent coins. But it reverted to the original proposals after objections from the European Blind Union.

The commission said yesterday it was satisfied that there was enough of a difference between 50 and 20 cent coins. It believes machinery can be adjusted to distinguish between them.

Countries which are to use the single currency are anxious to begin minting the 76bn euro coins, which will come into use in 2002. France hopes to start production this year.

The coin regulations have already been approved in outline by the European Parliament.

The EBU has said it wants a completely new set of coins.

New campaign on pay-TV plan

By Samer Iskandar in Brussels

European media groups are stepping up their campaign to block the approval by European Union competition authorities of the proposed German pay-TV project by CLT-Ufa and Kirch.

Their efforts come after executives from the two media companies held several meetings with European Commission officials last week, including an unscheduled session on Friday. The meetings have led rival groups to believe the Commission is softening its opposition to the proposed merger of Kirch's DF-1 digital pay-TV company with Premiere, an analogue pay-TV venture jointly owned by the two groups and Canal Plus of France.

A 50-50 joint venture would be achieved by splitting the Canal Plus 37 per cent stake between Kirch, the Munich-based company which already owns 25 per cent, and CLT-Ufa, the Luxembourg-based company 40 per cent owned by Germany's Bertelsmann.

"Our concern is that even if the deal is cleared with strict conditions, these would not be enough to prevent a strengthening of [the proposed venture's] dominant market position," said Andreas Weiss, head of international relations at ARD, the German public sector television.

Last week, Kirch offered to make a quarter of its film library available to other broadcasters and to grant licences to build decoder boxes, essential for receiving its programmes.

A Commission official said yesterday the offer was "not enough yet". However, he added, the gesture signalled that "the companies are willing to make more concessions".

Karel Van Miert, European competition commissioner, has expressed concern that the venture, in its initial form, would have denied other broadcasters access to its distribution system and given Premiere a monopoly on popular films and sports events.

The Commission is also investigating a related plan involving Deutsche Telekom, the partly privatised telecommunications operator, to own and operate the digital TV distribution platform.

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Finland eager to spread the Emu message

An information campaign on the remote Aland Islands shows Helsinki's dedication to the single currency, reports **Tim Burt**

Living with the euro

Small ferry boats carrying mail and supplies around the Aland Islands this week will begin delivering information packs on European economic and monetary union (Emu) to every household in the remote Baltic Sea archipelago.

Farms and fishing communities scattered among the 6,500 islands – marooned midway between Sweden and Finland – will receive detailed information on how the single currency could affect local prices, salaries and pensions.

This is the northern frontier of the euro-zone and the Finnish government, one of the single currency's most ardent enthusiasts, is determined to demonstrate that even inaccessible outposts will be fully appraised of its implications.

Sweden and Denmark have decided not to join the euro, citing public scepticism and fears of a soft currency. Much to the chagrin of the European Commission, Sweden has so far refused to implement an EU-funded information campaign to raise awareness of the new currency.

But in Finland, the birth of the euro has led the government to undertake the country's biggest such campaign, setting out the likely benefits of euro membership.

In spite of Aland's isolation, and despite confusion and doubts about the new currency, the islanders will get to know the euro well ahead of the Swedish mainland – even though the new currency will be adopted from the start by many Swedish companies.

Paavo Lipponen, the Finnish prime minister who boasts family roots in Aland, says the FM10m-FM12m ($1.8m-$2.2m) information campaign is just the latest stage of the country's single currency preparations.

"We are already living under Emu conditions with low interest rates and stability in the economy as far as inflation is concerned," he says.

Political analysts, however, maintain that public enthusiasm for the euro is less than overwhelming, particularly in outlying parts of the country such as the Aland Islands.

Scepticism in the archipelago is rooted in its geographic and historical proximity to Sweden. Until 1809 the islands were a Swedish territory; then Russian for more than 100 years; and subsequently a self-governing part of Finland.

But the official language and culture is Swedish. Mariehamn, the Aland capital, remains a very Swedish town and many islanders share the euro-scepticism of the old motherland.

The islands already treat Finnish markka and Swedish krona as common currencies, because of the Swedish tourists who come to enjoy the coast and tax-free status. From next year banks, shops and businesses will offer euro quotations or price levels alongside the two other currencies.

In a bid to avoid confusion, the Bank of Aland is distributing its own information to business clients on how to handle transactions and invoicing in euros.

But, says Peter Grönlund, vice-chairman at the bank: "It is going to be a mess. For a while we will have to deal with three currencies."

At Viking Line, the passenger ferry group based in Mariehamn, the flow of euro-related news has been sporadic at best. "We have not been impressed by the information," says Kent Nyström, Viking's deputy managing director. "We are having to find out by ourselves what to do, the situation is far from clear."

Mr Nyström regards uncertainty over the euro's status as a soft or hard currency as the main threat to the project. And until it has proved itself, Viking will not switch accounting or invoicing out of markka.

Roger Nordlund, Aland's finance minister, says that, despite pockets of euro-scepticism, every community will receive further information on the transition to the single currency. "The opinion about the EU here is negative, and there is a lot of suspicion in the islands," he admits.

"But we cannot change what has been decided in Helsinki, even if we feel closer to the debate in Sweden. We must be pragmatic about the euro and prepare ourselves as best we can for its arrival."

This is the first in a series of articles examining the euro's impact on economic and social life in Europe and beyond.

'Impasse' in Cyprus talks, says Holbrooke

By Andreas Hadjipapas in Nicosia

Richard Holbrooke, the US special envoy to Cyprus, said yesterday that peace moves on the island had reached a "temporary but serious impasse", after three days of talks with Greek and Turkish Cypriot leaders.

Mr Holbrooke, who brokered the 1995 Dayton accords on Bosnia, had tried to restart United Nations-sponsored peace negotiations between the two Cypriot communities for the reunification of the divided island. But he said that two conditions set by Rauf Denktash, the Turkish Cypriot leader, made it "extremely difficult" to make any progress.

Mr Denktash insisted on international recognition of his Turkish Republic of Northern Cyprus before agreeing to a new round of talks with Glafcos Clerides, president of the internationally recognised state of Cyprus, as well as leader of the Greek Cypriots.

Mr Denktash also demanded that Cyprus pull out of the negotiations it began a month ago to join the European Union.

Mr Holbrooke reiterated the US position that while the EU had done nothing wrong in opening membership talks with Cyprus, it had made a mistake in not inviting Turkey as well. "We believe that Turkey's candidacy for EU membership should be considered on the same basis as other existing applicants, recognising that such membership could take many years," he said.

The best chance for progress was for the two sides in Cyprus to devise a method by which they could both participate in EU negotiations as political equals.

Mr Holbrooke had no progress to report on Greek Cypriots' decision to buy S-300 anti-aircraft missiles from Russia. American and British officials have urged Mr Clerides to cancel the missile order.

The government has said it would cancel or put off deployment of the missiles if peace negotiations started and made progress.

The missiles' Russian manufacturer said last week the missiles would be delivered in August, a month earlier than previously announced. Over the weekend, the Russian government made a formal proposal to the UN for the demilitarisation of Cyprus, including an end to all arms purchases and the disbanding of all Greek Cypriot and Turkish Cypriot military units.

Greek Cypriot officials expressed dismay at Mr Holbrooke's failure to revive the peace talks, but said their next move would be decided at a meeting of the national council next Friday chaired by Mr Clerides.

Holbrooke confronts the press in Nicosia yesterday Reuters

National Front in election setback

By Robert Graham in Paris

France's Socialist-led government yesterday celebrated a by-election upset which saw the far-right National Front unexpectedly lose a seat in the naval town of Toulon.

Odette Cassanova, a Socialist backed by the entire left wing, scraped home by 33 votes, with 50.07 per cent of support, in yesterday's second round run-off poll. Her opponent was Cendrine Le Chevallier, the wife of Jean-Marie Le Chevallier, the National Front deputy for Toulon who was forced to give up his seat for exceeding the ceiling on campaign expenses.

The by-election result illustrates the shifting ground on the right of French politics.

Mrs Le Chevallier went into the second round a clear favourite after easily eliminating the moderate right-wing candidates in the first round. However, to win she needed the backing of at least part of the moderate right which had helped her husband win 53 per cent of the vote when he secured Toulon, an important National Front stronghold, in last year's general election.

On Sunday the right's turn-out was poor and a sizeable portion of those voting backed the left rather than endorse the National Front candidate. Local voters appeared to be antagonised by the Le Chevallier's attempt to keep the seat within the family.

The Front's loss means the party, which accounts for 15 per cent of the national vote, is now without a single deputy in the national parliament. This will isolate further a party recently labelled by President Jacques Chirac as "racist and xenophobic".

But it does nothing to resolve the dilemma of the moderate right, which is badly split and losing supporters to the Front.

NEWS DIGEST

OLYMPIC AIRWAYS

Pilots' overtime deal hits restructuring plan

The board of directors of Olympic Airways, Greece's struggling state carrier, yesterday reversed a central provision in the Socialist government's restructuring plan by agreeing to additional overtime payments for pilots. The board was due to approve last night a management proposal restoring privileges for pilots which were abolished under a cost-cutting package announced last month. Analysts said the decision could undermine Olympic's chances of survival.

The restructuring of the airline is seen as a test of Greece's commitment to carrying out public sector reforms agreed with the European Commission in March. The reforms are aimed at ensuring that Greece can qualify for Emu by 2001.

The pilots' threat to stage an indefinite strike unless their demands were met has thrown the government into confusion.

Most of Olympic's unions have already agreed a new business plan which calls for a three-year wage freeze, cuts in benefits and longer working hours for the 6,400 employees.

The Greek economy minister, Yannos Papantoniou, says Olympic will have to close if it cannot control its costs. The airline already faces a cash flow crisis following a sharp decline in first-quarter revenues, partly caused by strikes and work stoppages. **Kerin Hope, Athens**

WORLD CUP SOCCER

Truckers warn of blockade

A leading French trade union is warning that it may call a new truck drivers' strike to coincide with this summer's soccer World Cup in France. In the first of what may be many threats of industrial action during the tournament, the Force Ouvrière union says it may mount road blocks in pursuit of a pay claim.

In a letter to the International Transport Workers' Federation the union says it is "perfectly aware of the enormous inconvenience we can cause". It says it is demanding a rate of FFr56 ($9.40) an hour for a highly qualified driver, compared with FFr43.15 at present. The union says this is FFr4 above the French minimum wage.

Action by French truck drivers has paralysed the country's roads twice in the past two years, most recently last November. **David Owen, Paris**

UKRAINE MINING

Strikes follow subsidy cuts

Coal miners at 34 Ukrainian mines went on strike yesterday following government cuts of up to a third in subsidies to the coal industry. The cuts last month were part of a move by the government to decrease expenditure by a third in the second quarter of this year, a pre-condition for a three-year, $2.5m loan from the International Monetary Fund.

Last year the government spent about $800m – 5 per cent of the budget – on subsidies to the industry, where 40 per cent of mines are loss making.

Mikhail Volinets, spokesman for the Independent Union of Ukrainian Miners, said the budget cuts "would exacerbate socio-psychological tension in the mining regions", and miners were already owed 10 months of back wages on average, totalling 2.1bn hryvnia ($1.1bn). **Charles Clover, Kiev**

FDP seeks to broaden poll support

By Peter Norman in Bonn

Germany's small Free Democrat party yesterday added an overhaul of the country's antiquated nationality laws and education reform to the election programme it hopes will maintain the party's position as a force in national politics this year.

Guido Westerwelle, general secretary, promised that the FDP would fight the September 27 general election with "the most uncomfortable message of all parties", namely that individuals should exercise more responsibility and the state less influence in society.

Under the slogan "Fewer taxes, more jobs", the FDP committed itself last month to sharply lower taxes, with estimated net benefits for the taxpayer of DM30bn ($16.8bn).

The party leadership yesterday announced it would campaign on a broader platform that also stressed social and civil rights. Mr Westerwelle said a "very prominent role in the election campaign" would be given to a proposed overhaul of the nationality laws that would give to children of foreigners born in Germany dual nationality until the age of 18, when they could choose German or their parents' citizenship. This plan is intended to help integrate Germany's 7m foreign residents, including 2m under 20 years old.

The FDP also wants legal recognition of long-term gay relationships, more private provision to augment the pay-as-you-go state pension system and an amalgamation of state benefits with the tax system that would result in payment of a "citizen's allowance" to the needy. It urges education reform to strengthen Germany's ability to compete internationally, including a shortening of time spent at school to 12 from 13 years.

The party, the junior partner with the Christian Democratic Union and its Bavarian sister, the Christian Social Union, in Helmut Kohl's three-party coalition government, faces a tough struggle to win the 5 per cent share of the vote needed for re-election to the lower house of the Bonn parliament. While opinion polls suggest the FDP should just clear the 5 per cent hurdle in September, it fell narrowly below this level in recent state elections in Saxony Anhalt and Lower Saxony.

Claiming the FDP was the only German party committed to thoroughly market-oriented policies, Mr Westerwelle criticised other parties for supporting large-scale state welfare systems.

Kicking the smuggling habit proves costly for Andorra

Pressure from the European Union has forced the Pyrenean mountain state to crack down on contraband, with cigarettes the main target, writes **David White**

Today Andorra officially stops turning a blind eye to smuggling. A new anti-fraud law comes into force, making contraband from the Pyrenean mountain state subject to penalties within its borders for the first time.

Until now Andorra has monitored goods on the way in from France and Spain but not on the way out. But it has been pressured by the European Union to curb the use of its territory as a distribution centre for cigarettes, made under licence or imported wholesale, and sold on the black market in EU countries – a trade worth hundreds of millions of dollars annually.

"Andorra has made the most anti-Andorran law possible," says Josep Pintat, tobacco industrialist and former Andorran head of government. "It's a free-trade country," he argues.

Andorran police and customs will now monitor the border areas, and would-be smugglers can be fined. The state is also increasing duties on imports of finished cigarettes, to raise domestic prices and deter the contraband business.

Its measures still fall short of EU demands. Spanish officials, responsible for the border where most Andorran contraband has been entering the EU market, complain that smuggling is still not a prison offence in Andorra, that no code of good practice has been set for companies and that there is no provision for inspections by outsiders.

Anxious to placate the EU, Andorra's government sent Brussels a "memorandum of understanding" in February – a unilateral declaration of intent to cut back the business. Its stated aim is to reduce the number of cigarettes imported wholesale into Andorra or manufactured there by 45 per cent, to the 1994 level of 185m packets. But the Spanish, who since last autumn have had special forces sealing their border with the state, reckon it is still a lot.

Mr Pintat says the anti-smuggling campaign has endangered Andorra's stability. He and other tobacco company managers speak of financial disaster, and criticise the government's handling of the situation.

"Unfortunately it's the only industry," Mr Pintat says. His family controls one of five tobacco businesses, with a joint venture making Winston and other brands under licence from R.J. Reynolds of the US. The companies support local tobacco growers, although they buy the raw material for their cigarettes from the US and other foreign suppliers. They also import finished cigarettes for local sale.

Piled high in the discount stores which line the main valley road through Andorra, cigarettes are a staple of its thriving commercial sector, aimed mainly at Spanish visitors. A packet of Winston can be bought here for Pta190 ($1.25) compared with Pta350 at a Spanish tobacconist.

The industry claims Andorra gets 50 per cent more shoppers than the official visitor statistics of 8.5m a year. But even then, with a limit of 15 packets on what each visitor may legally take back to Spain or France, this comes nowhere near to accounting for the 301m packets handled last year.

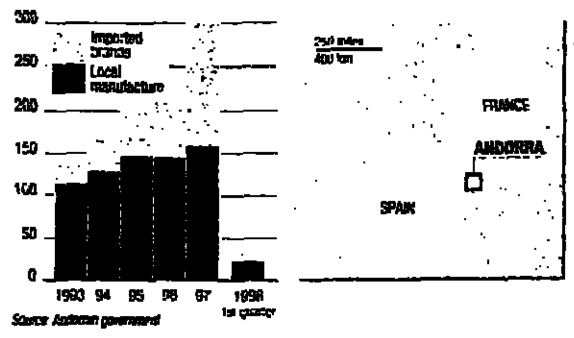
"Nobody says there hasn't been trafficking," Mr Pintat admits. But tobacco companies claim the issue of organised contraband has been exaggerated, and maintain they are not the ones responsible. Andorran officials agree that freelance operators have been involved, but say the companies have done "enormous business".

With hardly any legitimate exports, except what tourists take with them, Andorra has no statistics on what leaves the country. "How do you expect us to have figures?" asks Estanislao Sangrá, minister for the presidency in the Andorran government.

Spain says 350m packets of contraband cigarettes were sold on its territory last year, causing losses of Pta80.6bn ($530m) for its exchequer, and reckons a third came from Andorra – a claim the Andorran tobacco companies disbelieve.

The recent boom, however, has mainly involved the UK: British-made cigarettes exported to Andorra as a non-EU destination, free of UK excise duty and value-added tax, at a wholesale cost about one fifth of the official retail price in Britain, and then re-exported to the UK or Ireland on the black market.

Andorra: rise and fall of the cigarette trade
Millions of 20-cigarette packets



Source: Andorran government

Andorra's imports of finished cigarettes more than doubled last year. Fifty-three per cent came from the UK, compared with a 3 per cent market share five years ago. Between 1993 and 1997 the number of UK-made cigarettes sent to Andorra multiplied by 117.

Britain and Spain, as the principal losers of revenue, have been putting on the pressure. "We had to react," says Mr Sangrá. Andorra, which has a customs treaty with the EU, is currently waiting to conclude an association agreement covering a wide range of co-operation.

Since the Spanish border crackdown, the business has caved in. Andorran purchases of leaf tobacco for cigarette production tumbled 43 per cent in the first quarter, and imports of Virginia cigarettes from the EU fell 25 per cent.

In a country with no income tax, budget calculations have also been hit.

The government has up to now relied on import duties on tobacco, alcohol and fuel for half its income. Despite the duty increase, revenues from tobacco are expected to fall by a third this year, from Pta13.5bn to Pta9bn, out of total revenues of about Pta30bn. Kicking the smuggling habit is proving to be costly.

Romania confident of IMF accord

By Joe Cook in Bucharest

Radu Vasile, Romania's new prime minister, has pledged that the country will break the impasse of the last few months and reach agreement with the International Monetary Fund by June 15. He is also confident that Romania's 1998 budget will pass by May 15.

Mr Vasile, a 55-year-old economist, was appointed last month after his predecessor, Victor Ciorbea, resigned in the wake of a four-month political crisis that stalled reform and led to the collapse of an agreement with the IMF. Mr Vasile's cabinet is built from the same four-party coalition that came to power in late 1996.

The political crisis, caused by the coalition's rivalries and rows over the pace of reform, left a $410m standby loan agreement with the IMF to expire.

Mr Vasile said in an interview that the Fund "is very disposed towards discussing our goals in great detail". The IMF had had four arrangements with different Romanian governments and none had been put into practice, he added. "So we understand their suspicions."

The budget Mr Vasile's government is seeking to pass assumes zero economic growth and inflation of 45 per cent, and would be an important step to striking a deal with the Fund.

Sorin Dimitriu, Mr Vasile's privatisation minister, is also seeking a target of $1bn in privatisation revenues by the year's end. Privatisation inflows are crucial if Romania is to hit its estimated 1998 budget deficit of 3.6 per cent of gross domestic product.

Many observers and potential foreign investors in Bucharest have adopted a wait and see attitude towards the new government, seasoned with cautious optimism.

"Most of the ground-work for privatisation and reform was laid by the previous government," said a western diplomat.

Mr Vasile maintains that the coalition "learned from its mistakes" and knows that "Romania cannot afford the luxury of another crisis". He has banned his ministers from making contradictory public statements and has set a strict reform timetable for his ministers to meet.

This includes the partial privatisation of Romtelecom, the state telephone monopoly, by September. This sell-off alone could raise some $500m.

Two banks and Asirom, the country's dominant insurer, are also scheduled to be sold by November.

Croatian defence minister dies

By Jared Manasek in Zagreb and Guy Dinmore in Belgrade

Gojko Susak, the Croatian defence minister and leader of the nationalist faction in the ruling party, has died in Zagreb of lung cancer.

The death of the second most powerful figure in Croatia throws the spotlight on Franjo Tudjman, the president, who is also suffering from cancer, and the political struggle between rival factions for control of the Croatian Democratic Union (HDZ).

Mr Susak, who was 53, died on Sunday.

An anti-communist émigré in Canada, Susak returned to Croatia in 1990 and became defence minister in 1991. He played a key role in Mr Tudjman's rise to power and the build-up of a powerful military machine that finally defeated Serb forces in 1995 and secured Croatia's secession from former Yugoslavia.

Dubbed the "pizza man" by his critics for his reported ownership of a Toronto pizza parlour, Susak was the son of Croat émigrés from the Hercegovina region of Bosnia. He came to prominence by joining a group of Croats who fired rockets at a mainly Serb village in eastern Croatia as war was developing in April 1991.

Using his contacts among the Croatian diaspora, Susak raised funds for Mr Tudjman's election campaign and the war.

His death coincides with uncertainty within the Croatian leadership. Mr Tudjman's son, Miroslav, stepped down as head of the intelligence service last month and yesterday Hrvoje Sarinic, an associate of Susak, resigned as presidential chief of staff.

The government has not announced a successor to Susak, although one likely candidate is Ivic Pasalic, a hardline vice-president of the HDZ.

The role of the émigré community in supporting Croatia's war of independence and its suspected links to fascist groups is also expected to come under scrutiny with the extradition from Argentina of a Croatian commander of a second world war concentration camp.

Dinko Sakic, head of the Jasenovac camp in Croatia from December 1942 to October 1944, was arrested last week in Argentina where he had lived since fleeing Europe through Austria, with reported help from the Vatican. Jasenovac was the main killing ground of Serbs, Jews, gypsies and Croatian partisans.

WORLD TRADE

EU accused of trying to dictate to ACP nations

By Canute James in Kingston

The African, Caribbean and Pacific (ACP) grouping of 71 nations has accused the European Union of "foreign dictation" in the run-up to a meeting on Thursday to discuss a new trade and aid treaty between the two bodies.

The ACP is also concerned about EU proposals for a number of regional agreements rather than a single pact covering all member nations.

The ACP begins a two-day conference in Barbados today to establish a common position before the discussions with the EU about a successor to the Lomé convention, the current trade and aid pact, which expires in 2000.

"The negotiating directives forwarded by the European Commission to the European council of ministers fulfil some of the ACP's worse fears," said Shridath Ramphal, the Caribbean Community's chief trade negotiator.

ACP officials say the EU is suggesting the ACP states adopt political regimes which "will bind themselves contractually to the observance of certain standards of social and political conduct."

Some ACP states are unhappy that the EU wants to judge the group by Europe's standards, and to allocate benefits under a new Lomé convention based on the EU's judgments.

However, the EU maintains it is suggesting ways to ensure a "development model that guarantees human rights and social progress." The EU says it is seeking a new partnership to meet post-Lomé developments.

The EU's proposal for regional agreements surprised several ACP governments after a statement in July by Joao Pinheiro, Europe's commissioner for development, suggesting Europe had accepted the ACP argument that there should be one successor agreement. Percival Patterson, Jamaica's premier, has said the solidarity of the ACP would be "compromised and shattered" if regional pacts were introduced.

Cuba will attend the meetings this week as an observer. It has said it wants to become an ACP member and sign any pact that follows the Lomé convention.

Australia orders paper price rise

By Gwen Robinson in Sydney

The Australian government yesterday ordered paper manufacturers in four countries to raise their prices for high-quality coated paper or face penalties including duties on exports to Australia.

The government plans to introduce tough new anti-dumping penalties in parliament next week.

Companies from Japan, Germany, Finland and Austria had cornered up to a quarter of the Australian market by undercutting market prices by up to several hundred dollars a tonne, said Warren Truss, the Australian customs minister. The dumping had inflicted losses on the Australian paper industry and weakened prices.

The action against the foreign manufacturers follows a year-long investigation into 31 companies in 14 countries which local manufacturers claimed had taken a large portion of the domestic market for high-quality paper by illegally undercutting prices.

The glossy paper is used mainly in magazines and catalogues.

The government announced last month it would speed up investigation of dumping charges and introduce new penalties to assist local industries in cases where dumping could be proven.

Under the new arrangements, once a prima facie case of dumping had been established, the Australian customs service would conduct a comprehensive investigation and deliver a final report within 155 days. The customs minister could then take action to impose dumping duties or dismiss the complaint.

A number of companies investigated, including manufacturers in Italy and South Korea, had promised to raise their prices after learning of the investigation, Mr Truss said. But stiff import duties would be applied to remaining offenders.

Mr Truss said Australia was not using anti-dumping actions to protect domestic industry from competition.

NLD supporters cheer Suu Kyi: in the past year scores have been arrested on petty charges AP

Burmese junta digs in its heels as sanctions bite harder

The US investment ban is hitting the country's economy, but is failing to soften the government's stance, writes Ted Bardacke

To the north of Rangoon lies a sprawling new industrial estate where you can, in the words of the developer who has installed $12m worth of infrastructure, "just plug your factory in".

But few companies have made the connection since the park opened for business last year. By the time it was completed the year-old US ban on new investments by US companies in Burma was in force. Just one small Japanese factory is making monosodium glutamate, while two other plots have been sold to Fujitsu to assemble computers and to a Hong Kong company to make raincoats for export to Europe.

The coincidence of US sanctions over human rights and lack of activity at Mingalardon Industrial Park is not lost on Khin Shwe, managing director of Zaykabar, which is developing the site with Mitsui of Japan and the Burmese military junta. He recently hired Jackson Bain, the Washington lobbyist, to improve Burma's image with a view to changing the US policy.

The sanctions, combined with the Asian economic turbulence, are clearly hurting the Burmese economy. The annual inflation rate is almost 50 per cent. Foreign investment and tourist arrivals have slowed to a trickle. The regime has so few foreign reserves – reliable estimates say just over $100m – that it recently banned most imports and stopped accepting investment proposals from potential exporters which would use a high content of imported raw materials.

European investors, except oil companies, have generally been scared off by the political risk associated with sanctions.

Asian investors who were expected, in the aftermath of Burma's admission to the Association of South-east Asian Nations (Asean), to provide foreign capital simply do not have the cash to replace US companies.

But sanctions are not just supposed to hurt the economy. They are also supposed to encourage, or force, Burma's ruling generals to engage in serious political reform, start a dialogue with opposition leader Aung San Suu Kyi and clean up their human rights record.

But many US State Department officials doubt the worth of sanctions, and the department is conducting a lengthy review of their effectiveness.

In the year sanctions have been in effect, Burmese politics have taken a turn for the worse. Scores of members and student supporters of Ms Suu Kyi's National League for Democracy (NLD) have been arrested on petty charges and sentenced to long prison terms. Last week the regime sentenced six people to death for allegedly carrying explosives.

Alvaro de Soto, UN special envoy, "made no headway whatsoever" with the junta during a January visit, according to diplomats.

"He was told politics were purely an internal and domestic matter with no role for the UN," says one diplomat, noting that senior military leaders rejected the offer by Kofi Annan, UN secretary general, to act as a bridge for the junta to international financial institutions provided certain concerns were addressed.

Last September the junta ousted a number of its own members on corruption charges and changed its name from the State Law and Order Restoration Council (Slorc) to the State Peace and Development Council (SPDC), which is dominated by local army commanders charged with enforcing edicts throughout the countryside.

The national convention to draw up a new constitution has not met in more than two years. The last formal contact between the junta and the NLD was last November. Opponents of sanctions, including some within the regime who consider them a minor economic problem, argue that the measures have created a siege mentality which has caused the junta to dig in harder.

The NLD does not have a strategy to topple the regime through a popular uprising. Instead, Ms Suu Kyi and the NLD argue that because the private sector elite and their military allies are those most affected by the slump in foreign investment, economic hardship could result in internal disintegration, eventual dialogue and political opening.

Many thought this was the case when the Slorc transformed itself into the SPDC. Early indications are that they were mistaken.

"When they got rid of the corrupt guys that created the potential for dissension within the institution," says a western diplomat. "But there have been few overt indications of problems. They appear to have consolidated it well."

Some former members of the NLD now argue that the democracy movement should rethink its position on sanctions.

But Ms Suu Kyi will have none of that. "There is little evidence either that foreign contacts have led to a more liberal attitude on the part of the authorities or that the juicy fruits of foreign investment are enjoyed by many outside the small elite who see the concepts of liberty, justice and equality as a threat to their privileged status," she said recently.

With the US and European lobbies for democratic change in Burma taking their cue directly from Ms Suu Kyi, the international pressure on the junta is unlikely to ease.

But as a senior NLD member explains: "The regime hasn't responded yet, but they are nearer to the point where they will be forced to respond."

Czech, EU apple dispute near end

By Michael Smith in Brussels and Robert Anderson in Prague

The European Union and the Czech Republic are close to resolving a dispute over trade in apples after Josef Lux, Czech agriculture minister, agreed to withdraw quotas introduced earlier this year.

The disputants are also poised to sign a "veterinary equivalency" agreement providing a framework to allow the republic and EU countries to recognise each other's hygiene inspection rules for meat and meat products.

The two deals come a month after the Czech Republic and four other central and eastern European nations began talks with the EU on becoming members.

The quantity of apples sold by the EU to the republic is relatively small, but the dispute had threatened to sour the atmosphere at the accession negotiations.

The dispute began when earlier this year, the republic announced an annual quota of 24,000 tonnes a year and said it would levy a 95 per cent duty on anything above that. Last year, the EU exported more than 40,000 tonnes of apples to the Czech Republic.

The European Commission said the quota was unjustified, denying Czech claims that the EU subsidised apple exports and had placed obstacles in the way of Czech apple exports to the EU.

In March, EU countries agreed to suspend preferential import tariffs on pigmeat, poultry and fruit juice from the republic and to extend the suspension to milk products later.

Franz Fischler, EU farm commissioner, welcomed an offer by Mr Lux in Prague last week to withdraw the tariff quota during this quarter, but said it should happen quickly "to restore traditional trade flows".

A Commission statement said: "Both sides agreed that the best solution [to the apples dispute] would be to increase the competitiveness of the Czech apple sector".

Mr Lux said EU aid had been promised to fruit and vegetable farmers to improve their marketing and enhance their competitiveness. From 2000, Czech farmers will also become eligible for EU aid to prepare them for accession.

But an EU official said these funds were not new and cautioned: "Until the quotas are withdrawn, we cannot go ahead with any support we are currently planning."

INTERNATIONAL ECONOMIC INDICATORS: MONEY AND FINANCE

This table shows growth rates for the most widely followed measures of narrow and broad money, a representative short- and long-term interest rate series and an average equity market yield. All figures are percentages.

	UNITED STATES					JAPAN					GERMANY				
	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M2+CDs)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	4.2	5.4	7.65	8.84	3.61	8.4	10.4	4.43	4.77	0.54	9.7	6.4	4.34	6.46	2.61
1989	1.0	4.2	8.99	8.50	3.43	4.1	10.6	5.31	5.16	0.48	6.3	5.7	7.12	6.90	2.22
1990	3.6	5.5	8.06	8.55	3.60	2.6	8.5	7.62	6.90	0.65	4.5	4.5	8.49	8.86	2.11
1991	6.0	3.7	5.87	7.86	3.21	5.2	2.0	7.21	6.40	0.75	5.1	5.6	9.25	8.42	2.38
1992	12.5	1.9	3.75	7.00	2.95	4.5	–0.4	3.78	5.24	1.00	7.0	8.1	9.52	7.80	2.45
1993	11.6	1.1	3.22	5.86	2.78	3.0	1.4	2.95	4.18	0.87	9.4	7.8	7.28	6.47	2.11
1994	6.2	1.4	4.67	7.08	2.88	5.4	2.9	2.23	4.20	0.78	9.6	9.0	5.36	6.88	1.77
1995	–0.2	2.1	5.93	6.57	2.61	8.2	3.2	1.22	3.39	0.86	3.7	0.6	4.53	6.82	2.00
1996	–3.2	4.9	5.41	6.43	2.16	13.7	3.1	0.58	3.03	0.75	10.4	7.5	3.31	6.21	1.81
1997	–3.3	4.9	5.59	6.34	1.73	8.8	3.9	0.59	2.19	0.87	8.4	6.2	3.32	5.65	1.45
2nd qtr.1997	–4.8	4.5	5.68	6.69	1.83	8.7	2.8	0.56	2.42	0.83	9.2	6.5	3.18	5.82	1.53
3rd qtr.1997	–3.2	4.9	5.55	6.24	1.64	8.1	2.9	0.61	2.16	0.82	9.0	5.9	3.24	5.61	1.34
4th qtr.1997	–1.2	5.6	5.63	5.90	1.60	8.6	3.9	0.66	1.75	0.96	5.5	4.7	3.68	5.48	1.42
1st qtr.1998	–0.2	6.2	5.47	5.60	1.61	9.7	4.5	0.94	1.71	0.97	5.1	3.6	3.54	5.01	1.32
May 1997	–4.7	4.5	5.69	6.70	1.81	9.0	3.1	0.56	2.55	0.81	9.3	6.4	3.17	5.80	1.52
June	–4.5	4.4	5.65	6.48	1.73	8.4	2.8	0.58	2.48	0.80	9.0	6.3	3.14	5.75	1.46
July	–4.0	4.5	5.58	6.21	1.64	8.2	3.0	0.64	2.30	0.79	9.7	6.2	3.14	5.56	1.33
August	–2.6	5.1	5.56	6.32	1.64	8.3	3.2	0.60	2.13	0.82	9.0	6.0	3.26	5.66	1.32
September	–2.8	5.3	5.51	6.20	1.63	7.7	2.9	0.58	2.02	0.86	8.2	5.5	3.31	5.60	1.38
October	–1.8	5.5	5.55	6.02	1.60	7.9	2.9	0.53	1.79	0.90	6.5	5.1	3.58	5.58	1.37
November	–1.1	5.6	5.64	5.86	1.61	8.9	3.2	0.56	1.74	0.98	6.2	4.6	3.74	5.56	1.48
December	–0.6	5.6	5.71	5.80	1.58	8.9	3.9	0.87	1.71	1.00	3.7	4.5	3.73	5.32	1.40
January 1998	–0.7	5.8	5.47	5.54	1.58	9.7	4.5	0.95	1.74	1.00	4.4	3.6	3.57	5.12	1.38
February	–0.3	6.3	5.46	5.61	1.51	10.3	5.0	1.04	1.76	0.95	5.3	3.4	3.51	4.99	1.31
March	0.5	6.6	5.48	5.64	1.44	9.1	4.5	0.84	1.62	0.96	5.5	4.0	3.52	4.90	1.28
April			5.48	5.63	1.41			0.71	1.62	0.98			3.83	4.90	1.24

	FRANCE					ITALY					UNITED KINGDOM				
	Narrow Money (M1)	Broad Money (M3)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M1)	Broad Money (M2)	Short Interest Rate	Long Interest Rate	Equity Market Yield	Narrow Money (M0)	Broad Money (M4)	Short Interest Rate	Long Interest Rate	Equity Market Yield
1988	3.9	8.2	7.94	9.08	3.69	7.8	6.1	11.24	10.54	2.71	6.8	17.1	10.41	9.62	4.48
1989	7.6	10.0	9.40	8.79	2.88	7.2	5.5	12.42	11.61	2.46	5.9	17.4	13.96	10.11	4.36
1990	3.8	9.3	10.32	9.92	3.19	9.2	7.0	11.98	11.87	2.84	5.3	15.9	14.82	11.56	5.07
1991	–4.7	2.3	9.62	9.03	3.58	7.3	5.9	11.83	13.20	3.45	2.4	7.9	11.58	10.08	4.97
1992	–0.3	5.4	10.36	8.57	3.55	6.9	3.1	13.88	13.29	3.63	2.4	5.1	9.74	9.09	4.91
1993	1.1	–3.0	8.55	6.75	3.21	4.7	2.8	10.22	11.23	2.35	4.9	3.5	5.99	7.40	4.01
1994	2.5	1.7	5.84	7.21	2.99	6.6	3.6	8.48	10.56	1.67	6.4	5.1	5.57	8.01	3.94
1995	7.2	4.3	6.60	7.53	3.17	0.4	–1.8	10.38	12.22	1.72	5.9	7.3	6.77	8.16	4.15
1996	0.6	–3.5	3.94	6.32	3.05	1.0	–0.2	8.75	9.43	2.19	6.7	10.0	6.11	7.79	4.08
1997	6.5	1.7	3.46	5.58	2.58	8.8	9.2	6.83	6.83	1.91	6.3	11.1	6.94	7.02	3.59
2nd qtr.1997	2.7	–0.8	3.44	5.72	2.81	8.8	9.6	6.92	7.39	2.18	6.1	11.2	6.60	7.29	3.74
3rd qtr.1997	5.8	0.1	3.41	5.47	2.41	10.0	11.3	6.79	6.52	1.79	5.7	11.7	7.21	6.95	3.49
4th qtr.1997	6.5	1.7	3.65	5.49	2.48	8.2	10.0	6.35	6.02	1.69	6.7	11.0	7.58	6.46	3.37
1st qtr.1998			3.58	5.03	2.23	8.6		5.89	5.36	1.33	7.0	10.2	7.55	6.02	3.05
May 1997	2.8	–1.7	3.48	5.70	2.82	8.8	9.5	6.83	7.35	2.22	6.1	11.4	6.55	7.15	3.66
June	2.7	–0.8	3.43	5.68	2.76	8.9	10.2	6.85	7.08	2.16	6.3	11.6	6.77	7.10	3.70
July	5.4	–0.4	3.39	5.42	2.38	9.8	11.4	6.87	6.53	1.85	5.8	11.9	7.07	7.01	3.57
August	5.9	–0.1	3.43	5.53	2.41	11.1	12.2	6.86	6.67	1.80	5.0	11.6	7.25	7.05	3.48
September	5.8	0.1	3.41	5.47	2.42	9.1	10.5	6.63	6.36	1.72	6.2	11.5	7.31	6.78	3.41
October	7.8	0.8	3.59	5.59	2.43	9.2	10.6	6.62	6.21	1.68	6.5	10.8	7.38	6.47	3.31
November	6.9	0.7	3.69	5.58	2.57	7.7	9.6	6.44	6.14	1.74	6.9	10.5	7.65	6.59	3.47
December	6.5	1.7	3.69	5.33	2.44	7.8	9.7	6.01	5.74	1.66	6.7	11.7	7.71	6.33	3.33
January 1998	7.7	2.9	3.62	5.13	2.38	7.9	9.1	6.03	5.50	1.47	7.0	10.6	7.57	6.06	3.24
February	11.1	4.3	3.57	5.01	2.23	8.5	8.8	6.09	5.38	1.34	7.2	10.3	7.53	6.02	3.02
March			3.57	4.94	2.08	10.4		5.56	5.21	1.19	6.8	9.8	7.57	5.96	2.89
April			3.63	4.95	2.04			5.16	5.16	1.13			7.51	5.80	2.82

Monetary growth rates: show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. All growth rates refer to the seasonally adjusted series except for Japan and Italy. German monetary statistics now form a continuous pan-German series. Monetary data supplied by Datastream and WEFA from central bank sources. Interest rates: short-term, period averages of US – 90-day commercial paper, Japan – 3-month certificates of deposit, Germany – 3-month Fibor, France – 3-month Pibor, Italy – 3-month Euro-lira, UK – 3-month Libor; long-term, period average yields on 10-year benchmark government bonds. Interest rates supplied by Datastream. Equity market yield: period averages of the gross dividend yield on the relevant FT-A world index.

LONDON PEACE TALKS

Netanyahu puts up wall of resistance

By David Gardner

US efforts to persuade Israel to accept its formula for reviving the Middle East peace process ran into a wall of resistance from Benjamin Netanyahu, the Israeli prime minister, at talks in London yesterday.

Madeleine Albright, US secretary of state, prolonged her meeting with the Israeli premier at a London hotel for more than five hours, delaying her separate talks of just over an hour with Yassir Arafat, the Palestinian leader. US officials said a further round of meetings with both leaders would be held last night.

As the talks dragged on, Mr Netanyahu's spokesman counselled against expecting "dramatic developments or a breakthrough" but that there was "a feeling we must reach some kind of conclusion."

The Israeli leader said after breakfast talks with Tony Blair, the UK prime minister, that "we have gone the extra mile, well beyond the extra mile" on the handover of West Bank land to the Palestinians.

Washington in February persuaded the Palestinians to accept only 13 per cent of West Bank territory, on the understanding that Israel would be held to its commitment to a further troop redeployment and be required to stop building Jewish settlements on Arab land before "final status" negotiations on peace begin.

Mr Netanyahu has said ceding any more than 9 per cent of the West Bank at this stage would endanger Israeli security. But he is believed willing to move towards the US figure if the further withdrawal is dropped – which Palestinians yesterday said they would not accept.

Israel wants to enter the final status talks – dealing with the future of occupied Arab east Jerusalem, the Jewish settlement, final borders and Palestinian statehood – in a position of overwhelming strength. Mr Arafat's self-governing Palestinian Authority at the moment has total control over only 3 per cent of the West Bank.

"The fact that the Israelis are bargaining over 2 or 3 per cent is one of the most traumatic aspects of the whole process," said Nabil Sha'ath, a senior Arafat aide. "Thirteen per cent was the lowest possible ratio the Americans felt could move us on. It's a whole package, the Americans have pledged to stick by it, and we are not going to bargain about it."

Saeb Erakat, chief Palestinian negotiator, said that since the peace process broke down in March last year when Israel began work on a new settlement in south-east Jerusalem, the Palestinians had been eight times to the US, and Dennis Ross, Washington's Middle East envoy, had been nine times to the region.

"President Arafat has meet Mrs Albright six times, and we have met President Clinton three times, and things are the same. It really is time to move from process to substance."

Washington is still undecided even whether to present its plan formally, after 81 out of a 100 US Senators wrote to Mr Clinton last month urging him not to put pressure on Israel.

However, a poll commissioned by the Arab American Institute and published in yesterday's edition of the Saudi news magazine *al-Majalla*, says 54.4 per cent of Americans would support the president if he used "public diplomacy to pressure Israeli prime minister Netanyahu to comply with the peace process".

Mideast tacticians vie in spreading gloom

The Palestinians are 'low on hope' but looking to the US administration for support over the delicate operation in London to unblock the arteries of the peace process

By David Gardner, Middle East Editor, in London

"Today is the day" for Benjamin Netanyahu, Israeli prime minister, to demonstrate whether he intends to make peace, Yassir Arafat, the Palestinian leader, said yesterday before US-led talks in London aimed at unblocking the clogged arteries of the moribund Middle East peace process.

Mr Arafat said the right-wing nationalist Israeli leader would be responsible for "chaos" unless he accepted modest American proposals for the next round of troop withdrawals from the Palestinian West Bank.

Mrs Madeleine Albright, US secretary of state, was yesterday meeting both leaders separately in London hotels, but she and they vied in gloominess about the outcome.

Mrs Albright warned last week that this was a time of "grave danger" in the region and that the negotiations – halted 14 months ago when Mr Netanyahu started a new drive to settle Arab land in occupied east Jerusalem and the West Bank – were "going round in circles".

Mr Netanyahu, whose spokesman earlier dismissed the US troop withdrawal plan as "utterly impossible", said yesterday morning after meeting Tony Blair, the British prime minister, that "we have gone the extra mile, well beyond the extra mile".

Mr Arafat, on arrival on Sunday night, said he had accepted "the bare minimum". Nabil Sha'ath, his chief negotiator, said: "We are low on hope but high on determination" and that the US proposals were "totally non-negotiable".

So what chance is there, of the minimal and remedial advance the US is seeking, rather than a now unimaginable breakthrough?

Mr Netanyahu inherited from Yitzhak Rabin, the Labour prime minister assassinated by a Jewish extremist in 1995, two signed and internationally endorsed deals with the Palestinians derived from the 1993 Oslo accords. Under the second, meant to give the Palestinians self-government in most of the West Bank ahead of "final status" negotiations due to conclude this time next year, Israel would "redeploy" its 100,000 troops in the area in three stages.

The Likud leader, though hostile to Oslo, assented to the three redeployments, to be concluded by the end of next month, in the US-brokered deal of January 1997 by which Israel withdrew from most of the Arab city of Hebron – the only agreement he has reached with Mr Arafat. But no withdrawals have taken place. Moreover, although the ambiguously drafted Oslo accords envisaged significant handovers of territory, a damaging US addendum to the Hebron agreement states Israel alone decides the amount. Thus an Israeli offer last year of a 2 per cent withdrawal was rejected as derisory by the Palestinians.

The Oslo accords, intended to share historic Palestine between Arab and Jew and end the 50-year cycle of war in the Middle East, have so far given Mr Arafat full control of only 3 per cent of the West Bank and two-thirds of the Gaza Strip, with a further 27 per cent of the West Bank under limited Palestinian administration and full Israeli security control.

The US proposals call on Israel to hand over 13 per cent more to full Palestinian control, to halt further building and expansion of Jewish settlements on Arab land, and, also crucial, to carry out the third redeployment Mr Netanyahu pledged at Hebron. Mr Arafat, weakened as a peace partner by Israeli intransigence and undermined as a leader by the opposition to Oslo of Hamas, the Islamist resistance movement whose suicide bombers have killed scores of Israeli civilians, has accepted. Mr Netanyahu has offered 9 per cent but indicated privately he might accept 11 per cent.

The Israeli strategy, however, may turn out to be subtler.

Mr Netanyahu, whose spin-doctors kept in doubt whether he would come to London until the last minute, says he has "bent over backwards". But it would be classic Israeli tactics for him, after prolonged negotiations and heightened drama, to cede the 13 per cent and say "now I've touched my toes". But only if he can get as his price an immediate move to negotiations on the "final status" of Jerusalem, with no further redeployments, and at best a fudge on settlement-building.

The Palestinians, however, are refusing to enter negotiations on a final peace treaty from a position of such weakness, with Israel able to tighten the military noose around their scattered West Bank towns. "Final status" is supposed to deal with the future status of Arab Jerusalem and the West Bank settlements – none of which Mr Netanyahu is prepared to relinquish – the right of return of more than 4m Palestinian refugees, and the final borders of Israel and Palestine – which the Israeli leader is determined will not be an independent state.

Israeli government ministers have made clear that in those talks, moreover, they are prepared to cede no more than about half the West Bank. That is little more than 10 per cent of historic Palestine and no basis, in their view, for an historic compromise. Mr Netanyahu himself, in an interview with the FT in February, said: "We agreed to cede territory but not to jeopardise our security. The Palestinians will have to compromise. They cannot expect to get 90 per cent or 100 per cent of the West Bank. They have no right to expect it and no reason to expect it."

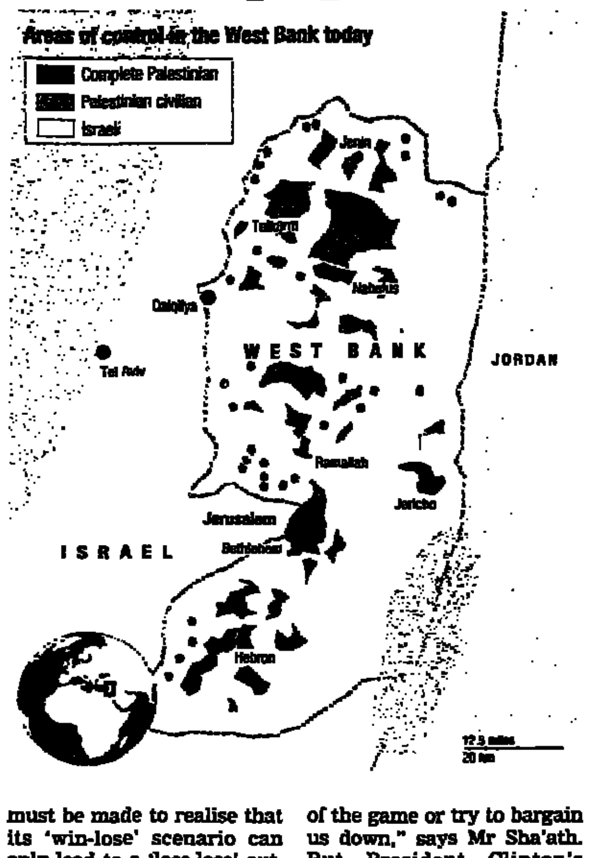
Yet if Oslo can deliver no more than what Israel is able to impose, the already alarming Palestinian desperation could indeed lead to the "chaos" Mr Arafat is signalling. As Afif Safieh, his ambassador in London, puts it: "The Israeli government must be made to realise that its 'win-lose' scenario can only lead to a 'lose-lose' outcome. The Palestinians will never accept it."

Tactically, they are prepared to enter "final status" only if Israel delivers – "delivers, not just agrees", emphasises Mr Sha'ath – the first two redeployments and has started negotiations on the third by the Hebron deadline, and if it stops colonising east Jerusalem and the West Bank.

Strategically, however, Mr Arafat is depending on the US. "We have assurances from the US that they will not try to change the rules of the game or try to bargain us down," says Mr Sha'ath. But President Clinton's administration has been notoriously reluctant to put any pressure on its Israeli ally, however irritated it gets with Mr Netanyahu. The Israeli leader's ability to rally support in Congress and even set the US legislative agenda has so unnerved the White House and State Department that it has not even formally presented the proposals Mrs Albright brought to London.

However high on determination they are, the Palestinians have every reason to be low on hope.

Areas of control in the West Bank today



Mayor quits Likud in quest for Israeli leadership

By Judy Dempsey in Jerusalem

Roni Milo, the popular mayor of Tel Aviv, said yesterday he was quitting the governing Likud party to challenge Benjamin Netanyahu for the premiership through a new centrist party.

The announcement could weaken Likud as several moderate members have already resigned from senior posts because of Mr Netanyahu's stance on peace negotiations with the Palestinians and his style of leadership.

It could also split the opposition Labour party, whose leader, Ehud Barak, has so far failed to make significant impact as a candidate capable of beating Mr Netanyahu. Under such circumstances, Mr Milo is likely to come under pressure from both sides to back down.

But Mr Milo, the elected mayor of Israel's most secular city, said it was time to realign Israeli politics by creating a centrist party that could marginalise the influence of religious and nationalist parties and push the peace process forward.

"The centrist party I'm forming is meant to change the political structure" in Israel, he said. Extremist religious parties would no longer hold the balance of power, he added.

Attempts to carve out a centrist platform were made in early 1997. Yossi Beilin, from Labour, Michael Eitan, Likud science minister, and others considered such a realignment to create a broad consensus for a final settlement with the Palestinians, as well as to weaken the hold of religious parties.

Mr Milo, a long-term rival of Mr Netanyahu, said he made his decision against the background of growing polarisation between secular and ultra-Orthodox Jews, with the latter exerting power out of proportion to their size. Religious parties hold five of 17 cabinet posts and 23 seats in the 120-member Knesset, or parliament.

Last week, Batsheva, the dance company, cancelled a performance at Israel's Jubilee celebrations rather than bow to pressure from the ultra-Orthodox community to change its programme. The ultra-Orthodox wanted Batsheva to have more modest dress.

BANGKOK RESIGNATIONS TOP MAN AND SEVERAL DEPUTIES GO AFTER COMPLETION OF INQUIRY INTO RUNNING OF ECONOMY BEFORE CURRENCY DEVALUATION

Thai central bank chief quits after baht probe

By Ted Bardacke in Bangkok

The revolving door at Thailand's central bank took another turn yesterday when its governor, Chaiyawat Wibulswasdi, and several top deputies resigned. Chatumongkol Sonakul, a former permanent secretary of finance, was immediately nominated to be the fourth central bank governor in less than two years.

The changes follow completion of an official inquiry into alleged mismanagement of the economy before last year's baht devaluation. The results are to be presented to the cabinet tomorrow, but details were leaked at the weekend.

Along with Mr Chaiyawat and other resigning central bank officials, the leaked excerpts implicate former prime minister Chavalit Yongchaiyudh, ex-finance minister Amnuay Viravan, and former central bank governor Rerngchai Marakanond for a disastrous currency strategy in 1997.

Then, Thailand exhausted its foreign reserves in a vain attempt to maintain the value of the baht against the US dollar and poured at least $16bn into bankrupt financial institutions.

One crucial charge is that the central bank's chief currency strategist wrote to Mr Rerngchai on May 12 suggesting that the depletion of reserves warranted an urgent review of the currency peg. Mr Rerngchai passed the memorandum to Mr Chaiyawat, who is said not to have responded for more than a month, during which Thailand lost several billions of dollars.

The findings also articulated a widespread belief among the Thai public that the central bank was the chief culprit in creating Thailand's economic problems.

Mr Chaiyawat was to have been sacked by the cabinet if he had not resigned. "Our effectiveness continued to be eroded as there remain questions about past performances. My resignation can pave the way for a new leader to take over without the disadvantage of the haunted past," he said.

The expected changes come at an inopportune time. A delegation from the International Monetary Fund arrived in Thailand yesterday for its quarterly review of the country's compliance with the Fund's $17.2bn bailout programme.

Low morale at the central bank could worsen with another change at the top. Last week, about half of the bank staff wore black clothing to protest at a perceived attempt by the government to turn Mr Chaiyawat into a scapegoat.

The Thai stock market fell 2.7 per cent and the currency weakened slightly as investors fretted over whether Thailand's financial stabilisation policies would be disrupted.

Mr Chatumongkol's management task is enormous and his appointment somewhat of a gamble. He must overhaul a bureaucracy battered by financial crises and political intervention.

Even before he was sacked from the finance ministry by Mr Chavalit last year, Mr Chatumongkol, an Oxford and Harvard educated economist, was one of the central bank's toughest critics.

Analysts expect Mr Chatumongkol to be a transitional governor. He has expressed a desire to run for parliament.

Mr Tarrin Nimmanahaeminda, finance minister, is currently assembling a formidable team of international advisers to help the new governor. They include Paul Volker, a former US Federal Reserve chairman; Koh Beng Seng, former deputy governor of the Monetary Authority of Singapore, and Paul Anderson, an IMF director.

Chaiyawat: resigned

See Observer

Australian court backs dockers

By Gwen Robinson in Sydney

Australia's high court yesterday upheld a lower court ruling ordering the reinstatement of 1,400 sacked dock workers.

The judgment is an important victory for the Maritime Union of Australia, which holds a monopoly on domestic waterfront labour, and a blow to Patrick Stevedores, the country's second largest dock operator, which dismissed the workers last month in Australia's biggest industrial dispute for several years.

The ruling will also severely embarrass the conservative coalition of John Howard, the prime minister, which has strongly supported the company's moves to break the union's hold.

However, legal experts last night said that a related decision by the court, to place the dismissed workers' future in the hands of the joint administrators of Patrick's four shell companies, leaves the final outcome of the case in doubt. Patrick dismissed its unionised labour force after the four subsidiaries, which technically hired the workers, were declared insolvent under a recent asset reshuffle. The restructure left them with no assets and losses of A$56m (US$37.5m).

The company's bankers placed the insolvent companies under independent administrators and Patrick, through another subsidiary which was not placed in administration, hired about 400 contract staff for its waterfront operations. It was this method of dismissing the workers that provoked public outcry and generated fears among white-collar workers that they, too, could be dismissed in such a manner.

After the high court judgment, Chris Corrigan, Patrick's chairman, said the company would inject A$3.6m into its insolvent subsidiaries to enable them to resume operations. However, he said the subsidiaries were under no obligation to rehire all the dismissed workers. "The [court] decision vindicates the decision the company took," he said. The ruling "restores the obligation of the administrators to act commercially, and that has to be an improvement on where we were," Mr Corrigan added.

The National Farmers' Federation, which early this year leased part of Patrick's Melbourne facilities to set up a rival, non-unionised stevedoring operation, said yesterday it would offer to supply the administrators of Patrick's subsidiaries with its non-unionised labour services.

The maritime union has accused Patrick of unlawfully conspiring with the farmers' federation and the government to dismiss the workers and break the union's monopoly on labour. The charge was supported by the high court in its initial reinstatement ruling.

HK growth rate slows sharply

By John Ridding in Hong Kong

Hong Kong's economy suffered a "distinct setback" in the fourth quarter of last year, with growth slowing sharply under the impact of regional financial turmoil, the government said yesterday. But Donald Tsang, financial secretary, said there was no need to revise his forecast of 3.5 per cent growth in gross domestic product this year, compared with 5.3 per cent in 1997.

"I think my 1998 forecast is quite achievable," he said, adding that first quarter performance was "slightly better" than he had expected.

After rising by between 5.9 per cent and 6.8 per cent in the previous three quarters, fourth quarter GDP increased by just 2.7 per cent over the same period in 1996. Consumption and tourism were particularly hard hit.

Confirmation of the fourth quarter slump coincided with evidence of a continued downturn in the economy. Wing On, a prominent retailer, laid off more than 200 staff out of about 1,600. The move follows a wave of redundancies in the retail sector which has contributed to a rise in unemployment. At the end of March, Hong Kong's unemployment rate rose to 3.5 per cent, compared with 2.9 per cent at the end of February.

Tourist-related businesses have also been badly hit by the regional crisis and the relative appreciation of the Hong Kong dollar against devalued Asian currencies. Cathay Pacific, the territory's *de facto* flag carrier, which cut 500 jobs earlier this year, said yesterday that passenger revenues in March were 25 per cent below budget.

A report by the Bank of East Asia yesterday predicted the unemployment rate would rise to 4 per cent, although many other private sector economists predict an even larger increase.

"There is a lot more pain to come as the economy continues to slow," said the head of research at one Hong Kong investment bank.

He said GDP growth in 1998 was likely to fall to less than 2 per cent under the weight of depressed consumer confidence, tight credit and continued regional uncertainty. Government economists said the sharp slowdown reflected the wealth effect of tumbling share prices and property values.

China 'greatest threat to India'

By Mark Nicholson in New Delhi

George Fernandes, India's defence minister, has declared China to be India's greatest potential security threat, alleging Beijing has provided Pakistan with missiles and nuclear technology while "stockpiling" in Tibet its own nuclear weapons aimed at India.

Mr Fernandes said in a TV interview "any person who is concerned about India's security must agree" that China posed a greater threat than Pakistan, India's traditional regional rival.

"To underplay the situation across the Himalayas is not in the national interest," he said. "I think there's a reluctance to face the reality that China's intentions need to be questioned. This is where our country has made mistakes in the past."

Mr Fernandes' remarks are the most overt expression by an Indian minister in recent years of India's perception of China as a strategic threat. Indian officials have long acknowledged their "threshold" nuclear programme is intended more as a potential deterrent to China than to Pakistan.

Foreign ministry officials declined to comment on whether Mr Fernandes' sentiments marked a policy shift. Mr Fernandes, leader of a small party in the coalition led by the Bharatiya Janata Party (BJP), is well known for campaigning for human rights and democracy in Tibet and Burma.

His comments follow his earlier accusations that China had aided Pakistan in building a 1,500km-range missile, which Islamabad claimed recently to have tested, and also that China has made repeated incursions across its disputed border with India, over which the two countries fought a brief war in 1962.

Beijing has said claims of incursions into India's Himalayan state of Arunachal Pradesh are "unfounded and extremely irresponsible".

The remarks by Mr Fernandes came just days after a visit by General Fu Quanyou, chief of China's People's Liberation Army. The Chinese military leader, the most senior to visit Delhi, said the two Asian powers had reached "a consensus on making efforts for peace and regional stability".

Mr Fernandes at a weekend lecture praised Gen Fu's "seriousness" in addressing bilateral issues. But he also said talks between the two countries should "go beyond confidence-building measures" and reach a "decisive stage".

In the television interview, aired last night on Home TV, a private channel, Mr Fernandes made detailed allegations of an encircling Chinese threat. He claimed China had in the last six months extended military airfields in Tibet and built a "massive electronic surveillance establishment" in Coco Islands, Burmese territory 40km from India's Andoman and Nicobar Islands.

NEWS DIGEST

CREW SAFE ON HAINAN ISLAND

China holds Indonesians on tanker hijack charges

Police in China's Hainan island have detained 12 Indonesians on suspicion of hijacking a Malaysian-flagged oil tanker and selling it into Chinese waters to smuggle its cargo, a Hainan official said yesterday. The 12 face charges of piracy, smuggling and illegal entry, said the official. He said the vessel Petro Ranger and its 21-member crew, including the Australian master, Kenneth Blyth, were safe in the port of Haikou, capital of the southern island province.

Chinese maritime police intercepted the vessel in Chinese waters on April 26 on suspicion of smuggling and escorted it to Haikou. In Jakarta, an Indonesian foreign ministry official said the ministry was checking the report. The vessel was carrying 10,000 tonnes of diesel and kerosene worth $1.5m. The Hainan provincial government official said the Indonesians were armed with daggers when they boarded the tanker in international waters in the South China Sea off the coast of Malaysia and Vietnam.

The 12,357 dwt vessel was reported missing by its agent, Singapore Petroships, a day after setting sail from Singapore on April 16 bound for Ho Chi Minh City in southern Vietnam. **Reuters, Beijing**

MALAYSIAN ASSISTANCE

Mahathir to boost Jakarta loan

Mahathir Mohamad, Malaysia's prime minister, (left) yesterday said Malaysia would lend Indonesia an undisclosed sum to help it out of its economic crisis. The loan would be on top of US$1bn Malaysia provided for Indonesia last year, as the regional crisis unfolded. The announcement comes as the crisis continues to strain the resources of a rising number of Malaysian companies, banks and stockbroking houses. Yesterday, the Securities Commission called on two stockbroking firms – Omega Securities and Alor Setar Securities – to show cause within two weeks on why their licences should not be suspended or revoked. Omega was forced to stop trading after failing to meet minimum liquid funds requirements. Alor Setar can continue trading under certain restrictions.

The Malaysian People's party criticised Dr Mahathir's help to Indonesia saying the initiative was inappropriate when Malaysians were struggling to cope. "I am surprised and bewildered at the announcement," Syed Husin Ali, MPP president, said. **Sheila McNulty, Kuala Lumpur**

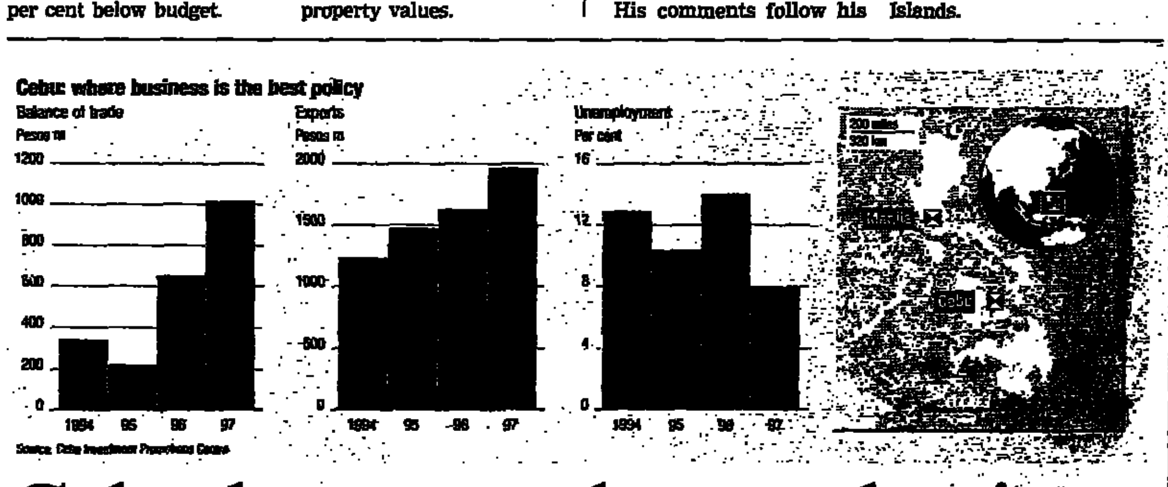
AUSTRALIAN TRADE DEFICIT

Record data 'a wake-up call'

Australia posted its largest monthly trade deficit in March, a development one economist described as a "wake-up call" about the likely effects of Asia's financial crisis. Official data showed the balance on goods and services ballooned to a deficit of A$1.327bn (US$866m) in March from A$462m deficit in February. It was the highest monthly deficit since the series began in July 1971. It was also more than double market expectations of a deficit of A$555m and beyond even the most pessimistic forecast of a A$1bn shortfall.

Asia takes about 60 per cent of Australia's exports, and the financial crisis across the region has slowed demand for Australian goods and services. Rural exports and tourism have been particularly hard hit.

In March, exports of goods and services fell by 5.2 per cent, while imports rose 3.8 per cent, pointing to continued strength in domestic demand. Imports were led by an increase of eight percentage points in capital goods imports, indicating a pick-up in business investment. Australia's exports of goods alone fell 5.8 per cent and imports rose 5 per cent. **Reuters, Sydney**



Source: Cebu Investment Promotions Centre

Cebu keeps cool over elections

By Justin Marozzi in Cebu

The temperature has been soaring in the Philippines – and not entirely because of the El Niño weather phenomenon. After the hottest April in 83 years, the political temperature is rising sharply in the run-up to national elections on May 11.

But in Cebu, the sun-drenched southern city that President Fidel Ramos likes to call Ceboom, you would hardly notice that the country is on the brink of electing a new leader.

Unlike many of their colleagues in Manila, businessmen in Cebu, showpiece of the country's recent extensive economic reforms, are remarkably unperturbed by elections. There is widespread confidence in Cebu that the new president will further develop the Ramos reforms that have driven recent economic growth.

In addition, Cebuanos, as the ethnic group is known, have a deep-seated belief – supported by recent history – in their ability to prosper no matter who is in Malacanang Palace, the presidential home.

Continuity, they believe, is largely assured under either of the two frontrunners – Joseph Estrada, the vice-president running on a pro-poor platform, and Jose de Venecia, the administration candidate.

"We feel whoever gets elected will follow the policies already formulated," says Efren Vallente, outgoing president of Cebu chamber of commerce. "To a certain extent there is a minimum degree of flexibility in terms of changing them. I'll venture to say he'll follow deregulation, privatisation, liberalisation and globalisation."

According to this view, even Joseph "Erap" Estrada, an unabashed populist – his election slogan is "Erap for the poor!" – is unlikely to deviate far from the Ramos administration's market-friendly reforms. The reforms are enshrined in law and it is unlikely the new Congress, also to be elected on May 11, will try to repeal them.

Another critical reason for the Cebuano business community's confidence is the province's own vitality. Business has already proven its ability to thrive, notwithstanding the best efforts of a hostile government in Manila.

Cebu has traditionally been the territory of the political opposition. It produced Sergio Osmeña, the first presidential challenger to the late leader Ferdinand Marcos. Unhappy at the affront to his authority, Mr Marcos starved Cebu of national government assistance, a policy that further contributed to the Cebuanos' defiant go-it-alone approach to business.

It has worked. Cebu, home to 4 per cent of the population of the Philippines, has for several years outpaced the national economy with double-digit growth. With five booming export processing zones and another in the pipeline, Cebu now accounts for 10 per cent of the Philippines' surging exports and 10 per cent of the country's gross domestic product.

Foreign investment from companies such as Mitsumi and NEC of Japan, Daewoo of Korea and Fairchild Semiconductor of the US has flooded in, attracted by the pro-business policy environment, low levels of crime and violence, and decent infrastructure and communications. Most shipping companies in the Philippines have headquarters in Cebu. International air flights have increased and tourism has taken off. Eight universities provide an educated local labour force.

With 1.5m voters, Cebu is the largest province on the electoral map and second only to Manila.

For the first time in recent history, there is a Cebuano candidate to vote for, an important factor in a country where regional loyalties are paramount. Lito Osmeña, the former governor of Cebu, who hails from the same political clan as the late Sergio Osmeña, claims much of the credit for the recent economic boom.

Following a surprisingly strong start to the campaign season – at one stage he was second only to Mr Estrada – Mr Osmeña's subsequent decline indicates his lack of national momentum and, critically, finance.

Cebuanos appear to be no more enamoured of Mr de Venecia, the speaker of the House of Representatives, than the voters in Manila, where business regards him with distaste.

Barring upsets, the presidential election appears to have narrowed to a two-horse race between Mr Estrada and Mr de Venecia. Both may be unloved by the business community, but in Cebu it is likely to be business as usual, regardless of who wins.

NationsBank is fined for mis-selling

By Richard Wolffe in Washington and John Authers in New York

US regulators have fired a warning shot across the bows of financial conglomerates emerging from the recent wave of "mega-mergers" by fining NationsBank for mis-selling risky securities to its elderly customers.

The $6.75m fine was accompanied by a reprimand for NationsBank, and a caution to all banks planning to sell brokerage products to ordinary bank customers. NationsBank, based in North Carolina, said last month it was merging with San Francisco-based BankAmerica to create the largest US retail bank with assets of $567.9bn.

Citicorp, currently the largest US bank in terms of deposits, announced one week previously it was merging with Travelers Group, the securities and insurance conglomerate, to form the world's largest financial institution.

Arthur Levitt, chairman of the Securities and Exchange Commission, condemned NationsBank and its brokerage arm for breaking anti-fraud laws. "We will not tolerate deceptive practices that prey on investors," he said. "These firms engaged in practices that blurred the differences between the bank and the broker-dealer."

Consumer groups and Democrats in Congress have raised strong opposition to the recent wave of mergers, saying they will lead to mis-selling scandals as banks attempt to "cross-sell" insurance and securities to existing customers.

The NationsBank scandal revolved around a sales campaign which presented derivative-based funds, called term trusts, as safe investments in government-backed bonds. About 13,000 investors, most aged over 60, were targeted for the sales pitch, which said the trusts were as safe as the US Capitol.

Investors suffered "significant loss" as interest rate rises in 1994 affected the derivatives' performance, which was highly leveraged and sensitive to rate rises.

NationsBank said the sales practices had taken place in a joint venture with Dean Witter which was now over. "We have put it behind us. We have definitely strengthened our procedures with respect to our brokerage." The bank neither admitted nor denied any wrongdoing. But the SEC said banks with brokerage arms must put in place "adequate separation" of their operations, "to avoid blurring and prevent improper sales practices".

It said salesmen from NationsSecurities, the brokerage arm of the bank, would share desks and information in bank branches so that customers could not distinguish between bank staff and brokers. Bank staff were paid referral fees to pass to brokerage staff the details of customers whose investments in federally-insured, certificates of deposit were maturing.

In addition to a $4m penalty by the SEC, NationsBank was fined $750,000 by the US treasury's Comptroller of the Currency, which regulates national banks. It was also fined $2m by the National Association of Securities Dealers.

Congress is due to debate the latest attempt to overhaul US banking laws this week.

ANTITRUST ACTION THREAT SOFTWARE MAKER WARNS OF 'BROAD NEGATIVE CONSEQUENCES' BUT MARKET SETS ASIDE WORRIES

Market shrugs off Windows warning

By Louise Kehoe in San Francisco

The US stock market yesterday largely shrugged off a warning by Microsoft of "broad negative consequences" should antitrust regulators force the company to delay its planned June introduction of Windows 98, a new version of its widely used personal computer operating system program.

With the US Justice Department expected to reach a decision this week on whether to file an antitrust lawsuit against Microsoft, *the software company* is stepping up its efforts to turn public opinion in its favour.

Microsoft's shares were down 1.5 per cent at $88¾ at mid-session. But elsewhere Wall Street seemed to shrug off the the warning. Stocks of leading PC makers, all of which will use the new Windows, moved up yesterday. Compaq was up $1¼ at mid session at $30¾. Dell gained $3⅞ to $87⅝ and Hewlett-Packard was up $1¼ at $75¼. Shares of computer retailers were mixed, with *Compusa, the biggest, off 3* per cent at $18⅛, but Circuit City up 2.5 per cent at $41¼.

Thirteen states are also investigating Microsoft's business practices and they too are widely expected to bring action shortly against the software industry leader.

Although the scope of such legal actions could be much broader, Microsoft has focused its public comments on the possibility that Windows 98 might be delayed or blocked. The product is scheduled to be introduced next month.

"*The* impact would be felt by PC manufacturers, companies that develop software products, companies that manufacture hardware *peripheral devices supported* by Windows 98, resellers and retailers who sell computer and software products, value-added providers who provide service and support, and thousands of others whose success is tied to Windows," said Greg Maffei, Microsoft chief financial officer, *in a letter delivered to* 150 analysts and investors yesterday.

The letter is the latest move in what appears to be a campaign by Microsoft to rally support from various constituencies with an interest in its continued success. Last week the company organised letters to the Justice Department and state attorneys-general from *computer retailers and resellers* as well as PC manufacturers and software developers.

Today, Bill Gates, head of Microsoft, will hold a rally in *New York at which he is* expected to demonstrate Windows 98 and reiterate Microsoft's concerns about the economic impact of delaying the product.

Resellers and retailers would also "share the pain", said Mr Maffei, through lost sales and wasted advertising costs. The computer services industry stood to lose business selling, installing, supporting and training their customers to use Windows 98 and related products, he warned.

Are you sure... Page 20

Open for inspection: the new Volkswagen Beetle at the Chicago Auto Show Reuters

New Beetle no dummy in crash tests

Volkswagen's New Beetle, which bounces away from low-speed impacts like a plastic Tonka toy, also protects its occupants better in high-speed crashes than any other small car, according to test results released yesterday, Reuters reports from Detroit.

The Insurance Institute for Highway Safety gave its highest rating to the New Beetle in 40mph frontal offset crash tests. It was the only one of 16 models to earn an overall safety evaluation of "good" from the institute, and the only small car to be named a "best pick".

The car's passenger compartment suffered so little deformation during the offset test that the only obvious indication of an accident was the deployed air bags, the institute said.

Canada water could become a trade good

By Scott Morrison in Toronto

Canada's fresh water could become subject to international trade regulations after Ontario issued a permit letting a small Canadian company draw water from Lake Superior in order to export it to Asia.

The permit has heightened fears that Canada could be obliged to sell its fresh water to the US. At least one trade expert says the permit issued by Ontario's environment ministry in effect transforms water into a tradable commodity that is now subject to North American Free Trade Agreement and World Trade Organisation provisions covering the trade of that good.

Ontario will now have to provide equal treatment to domestic and foreign companies seeking permits to draw water for export, said Barry Appleton, a Toronto trade lawyer and a leading authority on Nafta. "Trade in water is now here. This is a fundamental change," said Mr Appleton.

Control of Canada's fresh water supply was a key concern among environmentalists *and nationalists when* federal officials were negotiating trade agreements with the US. Critics of free trade warned that the agreements would oblige Canada to divert water in order to satisfy the thirst of the arid south-western US states.

Water from a lake *is to be exported* to Asia, Ontario has agreed

At the centre of the controversy is Nova Group, a small company from northern Ontario which has secured a provincial permit to draw 10m litres of water a day for five years. Nova said it intended to export the water to Asia, although it does not yet have a buyer or a mode of transportation.

Gordon Ritchie, a member of the team that negotiated the 1989 free trade agreement with the US, argued that exporting water to Asia would not oblige Canada to sell water to its Nafta partners and that only existing bulk water exports to the US or Mexico, of which there are currently none, are protected under the agreement.

"I think this is all just smoke. The problem is that *there is an unlimited supply* of totally unsupported allegations," he said.

Mr Appleton says there are no restrictions on the export of Canadian water and invoking a ban now would amount to imposing an export quota for Asia, which would be a WTO violation. A Canadian foreign affairs spokesman said the government's position was that water was not a good unless it was bottled, but he did acknowledge that the interpretation was not universally accepted.

It was not immediately clear how the federal government would respond to developments.

US to boost pressure on Japanese

By Gerard Baker in Washington

The US will use an important series of international meetings in the next two weeks to ratchet up the pressure on Japan to make good on its promise to stimulate its economy and help the rest of Asia weather its economic crisis.

The finance ministers of the Group of Seven industrialised countries meet this weekend in London, where *the weakness of the Japanese* economy is expected to dominate the discussions.

Robert Rubin, the US Treasury secretary, and Lawrence Summers, his deputy, are both likely to repeat their calls at last month's finance ministers' meeting for Tokyo to adopt a long-term strategy for economic recovery.

Next week, President Bill Clinton will travel to Europe to meet heads of government *of the G7 plus Russia*, and he intends to lean heavily on Ryutaro Hashimoto, the Japanese prime minister, in an effort to make the US case.

In an interview with the Wall Street Journal yesterday, the president said he would spend several long sessions with Mr Hashimoto *at the summit. Mr Clinton* gave a cautious welcome to the fiscal package which Mr Hashimoto announced last month.

"If it's real, that is, if it's real money and it's implemented rapidly and vigorously – I think it will be a plus," he said.

Japan must implement other financial and market reforms "to open the economy, to subject it to more genuine competition and open markets", he said. Neither the finance ministers' meeting nor the leaders' summit is expected to produce anything more than verbal pressure on Japan, however.

The US is highly reluctant to engage in any co-ordinated currency intervention *to prop up the Japanese yen.*

The US has repeatedly made clear that it believes Japan poses both the biggest danger and the biggest opportunity in the continuing efforts to resolve the Asian financial crisis.

US officials remain cautious about the impact of the crisis on their economy and the rest of the world. Figures published last week showed US growth accelerated in the first three months of 1998, as powerful domestic momentum brushed aside the effects of Asia.

But the White House expects the effect of the Asian crisis to grow over the rest of the year and there *is* continuing concern about the fragility of the Japanese financial system and the risk of a sudden loss of confidence *that could shake* world markets.

The US believes it has put its own economic house in order. *Mr Clinton said he* expected a budget surplus of about $50bn this year, the first federal government surplus for 30 years.

'If it's real money and implemented rapidly I think it will be a plus'

But the administration has problems of its own, notably over its efforts to persuade a sceptical congress of the benefits of international economic engagement.

Mr Clinton's request to Congress for additional funding for the International Monetary Fund has run into *the political sands in the last* two weeks. And last week the president indicated he had no plan to ask the congress for fast-track trade negotiating authority. The administration failed to get this last year and has all but given up hope of securing it in this mid-term congressional election year.

Rubin: to repeat call

NEWS DIGEST

BRAZILIAN BUDGET

Deficit jumps as public spending continues

Brazil's budget deficit jumped to 6.53 per cent of gross domestic product at the end of February, a sharp increase from January and a further demonstration of the government's difficulty in bringing public spending under control.

The deficit, which excludes privatisation receipts, surprised many economists, who had expected it to fall from a revised 6.21 per cent in January. The increase occurred in spite of rising tax revenues and an austerity package introduced following the Asian crisis. "This shows that fiscal accounts are still out of control," said Dany Rappaport, chief economist at Banco Santander in Sao Paulo. "It seems that no matter what the government does, the money keeps flowing out."

Most economists have blamed spending by states and municipalities for Brazil's worsening fiscal position.

■ The privatisation of Brazilian telecoms hit another hurdle yesterday when the government was forced to postpone a meeting expected to restructure the complex public network, *known as the Telebrás System, in readiness for its sale.*

The ministry hopes to issue tender documents on May 29 and accept bids on July 15, a schedule most analysts regard as impossibly tight. **Jonathan Wheatley, São Paulo**

CUBAN HOTELS

Pansea in $25m joint venture

A French hotel company, Pansea Hotels and Resorts, has signed a $25m joint venture with a Cuban state tourism corporation to build eight small, luxury hotels on the communist-ruled Caribbean island.

Britain's development finance institution, the Commonwealth Development Corporation, is also an investment partner in the venture involving Pansea.

The 50-50 joint venture with Cuba's Cubanacán corporation will introduce the concept of luxury "circuit" tourism to Cuba, *which has so far been concentrating mostly on beach resort* tourism. **Pascal Fletcher, Havana**

BERMUDA TELECOMS

C&W to sue over lost revenue

Cable and Wireless has started a legal battle to recover *$100m it claims it lost in Bermuda* after the island's government ended the company's monopoly on telecommunications services and gave an operating licence to another company.

The company has filed a writ against Bob Richards, the British colony's telecommunications minister. C&W claimed *last month that it had lost 25* per cent of its market share to TeleBermuda International. The compensation being claimed is to cover losses for the removal of the company's monopoly on providing international services without the required three years' notice, a company spokesmen said.

The government said competition would provide a more efficient and competitive service, and it had allowed the new company to offer rates lower than those of C&W for a transition period. TeleBermuda's rates are, on average, 15 per cent lower than C&W's. **Canute James, Kingston**

CARIBBEAN MISSION

Taiwanese seeking support

Lien Chan, vice president of Taiwan, is visiting the Caribbean this week to shore up diplomatic support following the decision of the Bahamas and St Lucia to switch ties to China after a Beijing diplomatic offensive.

Mr Chan will arrive in the region on Saturday and will meet the leaders of Grenada, St Kitts, Dominica, St Vincent and the Grenadines. He is expected to offer more economic help. Taiwan has already funded several *agricultural and road* construction projects in the east Caribbean. **Canute James**

DEFENCE COLLABORATION WILL SEE CONTRACT FOR TRACER PROJECT AWARDED TO ONE OF TWO CONSORTIA

US and UK close to stealth vehicle deal

By Alexander Nicoll, Defence Correspondent

Britain and the US are close to an agreement on joint development of an armoured reconnaissance vehicle packed with advanced sensors, communications and stealth technology.

The defence industry is expecting the UK Ministry of Defence to sign a memorandum of understanding within the next few days, heralding a pioneering degree of collaboration with the US on the highly sensitive $5bn Tracer programme.

UK defence ministry officials declined, however, to indicate when UK approval was likely. The US Army has already signed the memorandum, under which Washington and London will fund the project equally.

The Tactical Reconnaissance Armoured Combat Equipment Requirement (Tracer), known in the US as the Future Scout & Cavalry System, will be a hub of the "digital battlefield", which military chiefs see developing as a result of advances in technology. It will add to the drive among western armed forces to become more rapidly deployable and able to deal decisively with world crises and peacekeeping operations.

Their computer systems will fuse information with that from other sources, including helicopters, unmanned aircraft and satellites, and transmit it rapidly to commanders who will be able to get a complete picture of the battlefield.

The vehicles will be able to penetrate far behind enemy lines thanks to advances in stealth through "signature management" – the avoidance of detection by reducing radar, thermal and noise emissions.

Companies will be asked to develop the means to achieve all this, including a hybrid electric engine capable of covering long distances. The vehicles must also be small enough to be carried in a C130 transport aircraft.

Signing of the memorandum is expected to be followed rapidly by the issue of invitations to tender to two consortia, each combining electronics companies with armoured vehicle makers. They are: Sika, a 50/50 joint venture between Lockheed Martin and British Aerospace, also involving armoured vehicle manufacturers Vickers of the UK and General Dynamics of the US; and the Lancer consortium, including United Defense and Raytheon of the US, and GEC-Marconi and GKN of the UK.

Both consortia are almost certain to be awarded contracts later this year for 3½ years of "project definition", in which they will each produce a demonstrator vehicle. The two governments will then pick one consortium to manufacture the vehicle, which is due to come into service in 2007.

The US Army is expected to order 1,100 vehicles and the British Army 400.

The project is important because of its close collaboration and sharing of technology between the US and UK at a time when British companies are under pressure from the government to integrate with European defence groups. It will also fill a long-recognised gap in the reconnaissance capabilities of both armies.

Business 'not ready for law on late payment'

By Christopher Brown-Humes in London

Businesses are not prepared for a tough new law covering late payments to suppliers, a survey of finance directors says.

The survey finds that fewer than 2 per cent of finance directors in large businesses fully understand the Late Payment of Commercial Debts (Interest) Bill, which is due to pass one of its final hurdles in the House of Commons today.

The bill gives companies the right to claim interest on late payments and proposes an interest rate of 8 per cent over the base rate. The amounts involved could be more than £180,000 ($300,000) a day, according to the Association for Payment Clearing Services, which commissioned the survey.

"Given the potential cost to British business we are surprised at how few companies have grasped the full implications of the bill," said Richard Tyson-Davies for the association. "The legislation will in time affect every business irrespective of size."

One in five business payments are made outside the timescale proposed under the legislation.

The legislation is expected to come into force later this year, and will be phased in over four years. Initially, it will apply only to small businesses, which will be able to collect interest from late paying larger businesses (more than 50 employees) and the public sector.

Two years later, small businesses will have a statutory right to claim interest against any late paying business and the public sector. After four years, the right to claim interest will be granted to all businesses.

The association has found that only 27 per cent of finance directors knew the legislation allowed interest to be charged on late payments.

Just 8 per cent knew only small companies could charge interest initially.

At the moment, companies can sue for late payments in the courts, but many do not, particularly when small sums are involved. The association is trying to encourage companies to move away from cheques towards direct credits, enabling invoices to be paid by an electronic transfer of funds to a supplier's bank account. It says this has advantages for both sender and recipient.

Direct credits, although frequently used to pay employees their salaries, are not widely used to pay suppliers.

MACHINE TOOLS ENTREPRENEUR'S NAME USED IN EXCHANGE FOR TECHNICAL ADVICE FROM JAPANESE COMPANY

Motor racing team makes innovative link

By Peter Marsh

The austere world of machine tool marketing has moved up a gear through an innovative link between one of Japan's biggest tool suppliers and Jackie Stewart, the UK motor racing entrepreneur.

The UK arm of Hitachi Seiki is to use the former Formula One world champion's name in advertising its tools, in exchange for providing a full-time consultancy service to Stewart Grand Prix Racing, Mr Stewart's racing company.

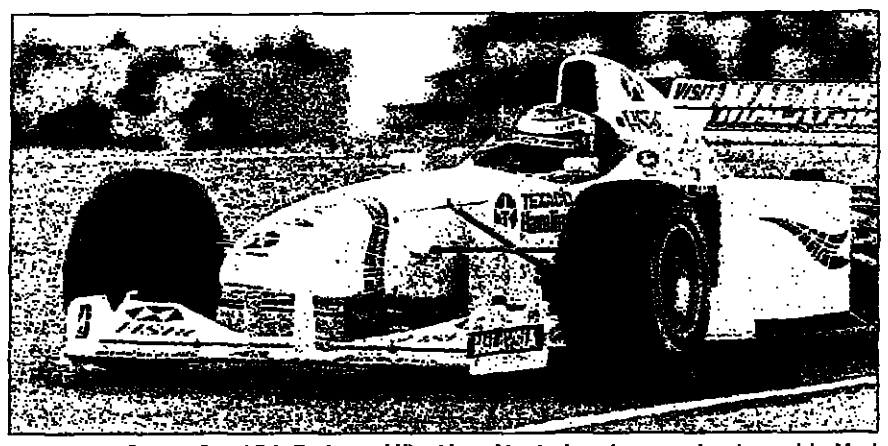
While soccer stars or actors are frequently happy to lend their names to help sell consumer goods such as food or designer clothes, deals of this sort are barely known in the more staid world of industrial equipment. In this field, technical specifications are normally more important than a famous face.

Hitachi conceived the link with Mr Stewart after it calculated that motor racing was one of the few pastimes almost guaranteed to set the pulses racing of the engineers who buy its products.

Mr Stewart is himself known for arranging sponsorship deals, in which corporations such as banking group HSBC or Lear, a US maker of car seats, give his racing team money in exchange for putting their names on his grand prix cars. However in the case of the link with Hitachi, no money is changing hands.

Instead, in exchange for the cachet of using the grand prix man's name, the tool company will give technical advice to Mr Stewart's engineering staff on developments in tools, for instance new cutting techniques for engine parts.

In addition, Mr Stewart's company has signed an exclusive deal with Hitachi to buy machine tools for its production unit in Milton Keynes. This deal is expected to be worth about £1.5m over the next five years.



New formula: Stewart Grand Prix Racing and Hitachi machine tools make unusual partners John Marsh

Michael Legg, managing director of Hitachi's UK operations, said that the use of Mr Stewart's name amounted to a "superb endorsement" for his company's products.

The contract comes after Hitachi has built up a record in supplying machines to a number of the UK's motor racing companies for jobs such as producing specialised engine parts or transmissions.

It already has a similar "endorsement" deal with Benetton, the Italian motor racing team that has its headquarters in Britain. However the link with Mr Stewart, a household name, is judged to be a more valuable marketing strategy.

UK sales of Hitachi tools, mainly machining centres and computer-controlled lathes, came to about £30m last year, out of the company's world sales of some £280m.

Japan tools group set for £3m expansion

By Peter Marsh

Aida Engineering, one of the world's biggest makers of high-speed press machines for the electronics and automotive industries, is to invest about £3m ($5m) in a new assembly area at its plant in Derby, central England.

Aida, a publicly quoted Japanese machine tool maker, is building the assembly area at Bliss, formerly E W Bliss, the company in Derby which it acquired from the receiver. Employment at the plant is due to expand from 80 to 100 by the end of this year.

Aida, which has annual world sales of about £150m, mainly in Asia, sees the UK operation as crucial to its efforts to expand sales in Europe, where in the high-speed press sector it is well behind Bruderer of Switzerland, the market leader.

The investment by Aida is only the third machine tool manufacturing venture in Britain by a Japanese company. Unlike Japanese consumer goods and car companies, which have been big investors in Europe, most Japanese machine tool businesses prefer to export to the region.

Japan is the world's biggest machine tool builder, providing a quarter of the £26bn of tools made globally last year.

Bliss has been in Derby since 1938. Until it went into receivership in 1996 it was owned by managers, after previously being part of a US group.

Andrew Hill, managing director of Aida's UK operations, said he wanted to double Aida's annual European sales to about £20m by 2001. Just over half the sales would come from machines made in Derby, with the rest imported from Aida's Japanese plants.

The fastest growing part of the company's sales is high-speed presses that can stamp out small metal parts to high accuracies for products such as electric motors, computers and car windscreen wipers. Aida sees a promising European market for these presses.

Aida's spending follows £55m of investment at a plant in Worcester by Japan's Yamazaki Mazak, one of the world's biggest machine tool makers, over the past decade. The other Japanese machine tool plant in the UK is run by Matsuura near Leicester, central England, where the company has invested £10m.

NEWS DIGEST

SMART CARDS

American Express opts for different technology

American Express, the charge card and travel company, has agreed to use the Multos operating system developed by Mondex group as the platform for its smart cards.

AmexCo already uses the competing Proton electronic purse technology, so its move is a significant advance for Multos's efforts to become an industry standard for smart cards.

Although Mondex is controlled by MasterCard, it has placed the development of the Multos system under the control of an independent consortium called Maosco in an attempt to position the technology as an open standard.

Development of smart cards has been held back by the failure of the big payment card organisations to agree on common technical standards. Retailers, for example, do not want to install new card terminals if they cannot be sure they will work for all the major payment cards.

AmexCo said Multos would allow it to create personalised cards combining functions such as credit, debit, electronic purse, electronic ticketing and retailer loyalty programmes on a single card. George Graham, London

NORTHERN IRELAND

Bombs fail to halt marathon

Thousands of runners turned out for the Belfast Marathon in Northern Ireland yesterday despite the discovery of two mortar bombs near the route of the race. Competitors had to be rerouted at the last moment. The mortars, of a type previously used by the Irish Republican Army, were fired at a police station late on Sunday night but missed the target, police sources confirmed.

Police were also last night investigating reports of a device exploding on the main railway line between Northern Ireland and the Republic of Ireland. Both attacks were blamed on dissident republicans opposed to the Northern Ireland peace agreement.

"Clearly we have nothing that remotely approaches peace," said Peter Robinson, deputy leader of the hardline Protestant Democratic Unionist party, which wants to retain British rule over the province.

CABLE TELEVISION

Watchdog comes under fire

The Independent Television Commission, the watchdog which oversees the commercial television industry, is expected to face criticism today over plans to change the way cable and satellite channels are sold. The ITC announced in April that it would bring in measures to allow customers to subscribe to fewer television channels.

However, in a submission to be presented to the ITC today, MirrorTel, owner of Live TV, the cable channel, is expected to challenge the watchdog's claims that it has the power to tear up channel providers' existing contracts with cable operators. MirrorTel has already threatened to sue the ITC if it enforces the changes. The ITC has indicated it is unlikely to make concessions. Cathy Newman, London

LABOUR MARKET

Early retirement on the rise

The trend towards early retirement in the UK seems to be intensifying in spite of the buoyant state of the labour market, according to Incomes Data Services, the employment research organisation.

A survey of 50,000 employees taking retirement from a cross-section of 20 blue-chip employers found 80 per cent did so before reaching their scheme's "normal retirement age". In some companies, most employees retired at or before reaching the age of 54. Andrew Bolger, London

Lloyd's of London looks for a way of lifting an annual burden

Market may move to become business backed by permanent capital, writes **Christopher Adams**

Lloyd's of London is considering how to overhaul its centuries-old system of capital provision by which insurance underwriters raise fresh funds each year.

Ron Sandler, chief executive of the insurance market, said the "annual venture" carries an economic cost that is burdensome.

His comments to several hundred Names – individuals whose assets underwrite the market – show he has come down firmly on the side of those advocating reforms to speed up the transformation of Lloyd's into a modern business supported by permanent capital.

Lloyd's will need to reinvent itself if it is to prosper in an increasingly competitive trading environment, he says. It will have to cut costs and broaden its distribution base.

Many underwriters who manage the syndicates or trading units that collectively insure risk at Lloyd's have already begun forming strong ties with new corporate investors, taking control of the capital supporting their businesses in the process. They have sought such links because of commercial pressures in global insurance. Competition has intensified, and some underwriters complain it is becoming difficult to operate not knowing for more than 12 months ahead how much capital will be backing their activities.

Lloyd's underwriters have for three centuries had to attract fresh funding each year for the syndicates they manage in order to continue operating. Until 1994, all the capital was supplied at arm's length by Names. But their numbers have recently fallen following the worst losses in Lloyd's history. Corporate funds support 60 per cent of underwriting.

Lloyd's may now take steps to make reporting and regulatory burdens on businesses that switch to permanent capital more flexible. For example, it is looking at how businesses operating in the market could move to annual from three-year accounting. Delayed profit distribution has confused potential investors, deterring them from buying shares in quoted Lloyd's vehicles.

It is also poised to approve measures that would enable underwriters to do bilateral deals with Names and other capital providers when buying in "capacity" or the right to support business written by the syndicates they manage. This would make it easier to trade large chunks of capacity, hastening restructuring. The system will not change overnight and evolution away from the annual venture may take several years. However, the repercussions of this process for Names will be enormous and reform contentious.

Over time, the choice for those wanting to participate by pledging capital to syndicates on an annual basis will probably diminish. Private trading with unlimited liability, the way that Names have traditionally participated, may die.

The argument for and against the annual venture will therefore be fiercely fought in the coming weeks. Lloyd's holds its annual meeting in June.

The system has many benefits. It allows capital to flow freely around Lloyd's, encouraging entrepreneurs. Underwriters are kept on their toes, since Names have tended to flock to better performing syndicates and withdraw from less profitable areas. Some say it is a more efficient and ruthless redistribution of capital than exists in any quoted insurance company.

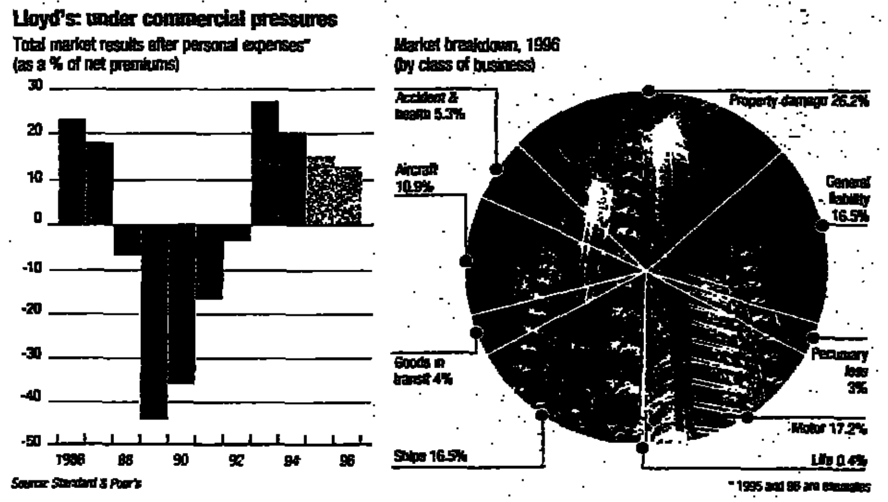
Supporters argue the annual venture has contributed to Lloyd's other strengths: its ability, for example, to underwrite a variety of business, insuring everything from film stars' body parts to space rockets and nuclear power stations.

But there are expenses. These include the cost of managing tens of thousands of trust funds for each underwriting year for Names to meet solvency requirements.

The distribution of profits is also cumbersome. Names who have backed a loss-making syndicate cannot take the returns from a profit-making one until their net solvency has been calculated. Some underwriters also complain that the annual venture makes it difficult for them to take long-term investment decisions and write multi-year insurance policies.

The cost to underwrites of regulatory compliance s also an issue. The complex regulatory structure at Lloyd's is largely designed to ensure a level playing field between the providers and the mangers of capital. If the two were combined, the need for such safeguards would be lessened.

Lloyd's: under commercial pressures



Source: Standard & Poor's

* 1995 and 96 are estimates

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NOTICE PUBLISHED BY THE SECRETARY OF STATE UNDER SUBSECTIONS 8(5) AND 10(6) OF THE TELECOMMUNICATIONS ACT 1984

The Secretary of State hereby gives notice as follows.

1. She proposes to grant licences under the Telecommunications Act 1984 ("the Act") to EGN BV, International Telecommunications Group Inc, Qwest Communications International Limited, Teleport London International Limited, VersaTel Telecom BV and Viatel U.K. Limited ("the Licensees") to run telecommunication systems throughout the United Kingdom. All licences will be for a period of 25 years subject to earlier revocation in specified circumstances. In the case of Teleport London International Limited and Viatel U.K. Limited the licences will replace similar licences issued on 18 December 1996 and 28 April 1997 respectively but which did not apply the telecommunications code.
2. The principal effect of these licences will be to enable the Licensees each to install and run telecommunication systems throughout the United Kingdom. Each Licensee will be able to provide a wide range of services but excluding mobile radio services and certain international services. Both Licences authorise connection to a wide range of other systems, including earth orbiting apparatus, allowing the provision of some types of international satellite service. On securing a share of 25% or more of the market in respect of particular services in an area specified by the Director General of Telecommunications, each Licensee may be obliged to make available those telecommunication services to all who reasonably request them within that area.
3. All licences will be subject to conditions such that section 8 of the Act will apply, thereby making each of the systems run under each licence eligible for designation as a public telecommunication system under section 9 of the Act. It is the intention of the Secretary of State to designate each of the Licensees' systems as a public telecommunication system.
4. The Secretary of State proposes to grant these licences in response to applications from the Licensees for such licences because she considers that it will help to satisfy demands in the United Kingdom for the provision of services of the type authorised, will promote the interests of consumers in respect of the quality and variety of such services, and will maintain and promote effective competition between those engaged in the provision of telecommunication services.
5. She proposes to apply the telecommunications code ("the Code") to EGN BV, Teleport London International Limited, VersaTel Telecom BV and Viatel U.K. Limited subject to certain exceptions and conditions throughout the United Kingdom. The effect of the exceptions and conditions to the application of the Code is that the Licensees will each have duties:
   (a) to comply with various safety and environmental conditions, in particular (with certain exceptions) to install lines underground or only on such above-ground apparatus as is already installed for any purpose;
   (b) to comply with conditions designed to ensure efficiency and economy on the part of the Licensees, in connection with the execution of works on land concerning the installation, maintenance, repair or alteration of their apparatus;
   (c) to consult certain public bodies before exercising particular powers under the Code, including the local planning and highway authorities and English Nature, Scottish Natural Heritage, the Countryside Council for Wales, the National Trust and the National Trust for Scotland, as well as relevant electricity suppliers;
   (d) to keep and make available records of the location of underground apparatus and copies of the exceptions and conditions in their respective licences to their powers under the Code; and
   (e) to ensure that sufficient funds are available to meet certain liabilities arising from the execution of street works.
6. The reason why the Secretary of State proposes to apply the Code to the Licensees is that the Licensees will each need the statutory powers in the Code to install and maintain the telecommunication systems which are to be installed and run under the proposed licences.
7. The reasons why it is proposed that the Code as applied should have effect subject to the exceptions and conditions referred to above are that they are considered requisite or expedient for the purpose of securing that the physical environment is protected, that there is no greater damage to land than necessary, that the systems are installed as safely and economically as possible, and that the Licensees can meet (and relevant persons can enforce) liabilities arising from the execution of works.
8. Representations or objections may be made in respect of the proposed licences, the application of the Code to the Licensees and the proposed exceptions and conditions referred to above. They should be made in writing by 29 May 1998 and addressed to the undersigned at the Department of Trade and Industry, Communications and Information Industries Directorate, 2.67 Grey, 151 Buckingham Palace Road, London SW1W 9SS. Copies of the proposed licences can freely be obtained by writing to the Department or by calling 0171 215 1756.

Anthony J. Eden-Brown
Department of Trade and Industry
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- ☐ Issued stock capital, according to the latest records at the Commercial Registrer Office: 83,494,675 thousand, ROL.
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PROFILE ROBERT PITOFSKY, FTC CHIEF

Defining moment for trustbusting

Richard Wolffe meets the law professor heading the complex investigation into Intel

The headlines may be dominated by the bruising courtroom battle between Microsoft and the trustbusters at the US justice department. But a similarly epic struggle is emerging with the other titan of the computer industry, Intel.

Leading the action against the world's biggest chipmaker is Robert Pitofsky, the 68-year-old chairman of the Federal Trade Commission, who may seem an unlikely character to lead a blockbuster action against the world's largest chipmaker. A veteran academic in antitrust theory, Mr Pitofsky has a reputation for taking a scholarly approach to government intervention in the marketplace.

Formerly a law professor at the universities of Georgetown, New York and Harvard, Mr Pitofsky has written several text books on trade regulation and antitrust law. He also has long experience of the political shifts in US antitrust policy, having started his career as an attorney in the justice department 40 years ago.

Intel represents an awkward case study, but – along with the investigation into Microsoft – it is likely to become a defining chapter in antitrust history.

Microprocessors were hardly envisaged by the courts and legislators who shaped US antitrust law more than 100 years ago. The age of the law complicates the task of investigating such a fast-moving industry. An earlier FTC investigation of Intel ended in 1993 with no action taken.

The rise of the blockbuster antitrust case marks a distinct shift in policy from the laissez faire approach of the last M&A boom in the 1980s, under the Reagan administration. Along with Joel Klein, the antitrust chief at the justice department, Mr Pitofsky has come to embody the Clinton government's revival of antitrust action. Most recently, the justice department blocked the $9bn merger of Lockheed Martin and Northrop Grumman, arguing that it wanted to preserve competition in vital defence contracts.

Mr Pitofsky concedes the change in political attitudes, but says there is no desire to return to the 1960s antitrust policies of heavily regulating small sectors. "There is less support for the idea that big business is always bad, and even less support for using antitrust to protect competitors rather than consumers."

Moreover, the FTC's own recent antitrust decisions have drawn public criticism – either for being too lenient or too harsh. When Boeing proposed its merger with McDonnell Douglas, the FTC's decision to wave the deal through was in stark contrast to the determined intervention of the European Commission.

"Typically, with a market of more than 80 per cent, it would be a clear violation," Mr Pitofsky says. "But the case came down to one fact. Of the 40 witnesses we interviewed, 38 said they would not buy an aircraft from McDonnell Douglas. It was not a merger reducing the market from three to two players, it was a merger in a market where only two mattered."

The politics of consumer protection also lay behind one of the commission's most controversial decisions of recent years: its blocking of the $3.8bn merger between the office suppliers Staples and Office Depot last year. Opponents claimed the FTC's intervention was a return to the heavy regulation of the 1960s.

"You can buy office supplies in hundreds of different stores," Mr Pitofsky admits. "But competition between the office supply superstores was most intense and we demonstrated in court that where there are three office supply stores, prices were 13 per cent lower than where there was one."

Consumer protection runs through the FTC's wider concerns, including the tobacco industry and investment fraud. Mr Pitofsky sparked controversy recently by raising the idea of applying health warnings to cigars. The FTC is looking at how cigars are being marketed, especially to young people. His concerns followed a damning report published earlier this month by the National Cancer Institute, which said smoking cigars posed as great a risk of cancer as cigarette smoking.

The computer industry may prove a tougher opponent. Whether a case is brought against Intel will not be resolved for several months. But the early signs from the FTC show a surprising determination to stimulate competition against a company with a 90 per cent share of the microprocessor market.

Last month the FTC intervened in Intel's $700m purchase of the plant producing one of its few rival microprocessors, Digital Equipment's Alpha chip. The FTC insisted Alpha should be licensed to three other producers, "to ensure that Alpha remains a viable competitive alternative to Intel's chips".

For Mr Pitofsky, the main issue is judging Intel's behaviour. The launch of the FTC inquiry in September was triggered by several complaints from the industry – including customers and competitors. "Holding more than 80 per cent of the market is not a violation, nor is having that share and charging high prices," he says. "You must have done something improper to get the 80 per cent, or something improper to maintain it. There must be exclusionary conduct."

In particular, Mr Pitofsky is concerned that the rapid pace of technological change could be producing "bottleneck monopolies", which have a stranglehold on future developments in the IT industry. Such monopolies would stand at the gateway of new markets, ensuring that new entrants had to comply with their own existing products.

In the meantime, the prospect of a drawn-out investigation against Intel offers just the kind of intellectual challenge that Mr Pitofsky appears to relish.

"Here's this 19th century philosophy applying to the information technology of the 21st century. Can it be adjusted to apply appropriately? I think it can, but I would be the first to concede it is a difficult transition."

Pitofsky: 19th century philosophy adapted to IT of the 21st century Reuters

FT GUIDE TO BIODIVERSITY

Why extinction is bad for economic progress

Leyla Boulton says that recent man-made catastrophes may have an important role as a global wake-up call

I'm increasingly hearing references to biodiversity and now I read that governments are meeting in Bratislava this week to discuss an international convention on the subject. What on earth is it?

You're not alone in being confused. A recent survey by the UK's National Consumer Council found that many people thought biodiversity had something to do with washing-powder. It is actually a fancy word to describe the biological world's rich diversity of plants and animal species.

You mean things like tigers, beetles and edelweiss? So what's the big deal?

Well the reason governments, environmentalists, and biologists worry about so-called biodiversity is that species are becoming extinct at a faster rate than at any time since dinosaurs died out 65m years ago.

Estimates suggest there are close to 14m species in total, of which about 1.7m have been catalogued by scientists. A United Nations report, compiled by 1,500 scientists, has suggested that species have been dying out at 50 to 100 times the estimated natural rate since 1600, at the dawn of modern economic growth.

Sounds bad. What's to blame?

Man-made phenomena such as deforestation, agricultural development, pollution, and urbanisation, play a large part in the degradation of ecosystems. (That is another fancy word to describe groups of animals plants and micro-organisms which are so inter-dependent that the loss of one species may lead to the disappearance of another). Today, an estimated 31,000 plant and animal species face the risk of extinction.

Yes, but isn't that sort of thing inevitable as economies prosper and living standards improve?

To a certain extent you're right. Some environmentalists still hanker for a utopian world where there would be no economic growth and we would all be happy producing our own vegetables and clothes. But the reason governments have begun discussing the need to slow the rate of damage is that, taken too far, the loss of biodiversity may boomerang against the well-being of future generations. As economic growth continues apace around the globe, this rate of extinction is expected to rise to between 1,000 and 10,000 times what it would have been had there been no human interference.

A stitch in time saves nine, then?

Right. The idea is that it is in our own self-interest to preserve ecosystems on which, in the long run, all kinds of economic activity, whether food production or tourism, depend. To take a few examples, the World Resources Institute in Washington reckons that from 1960 to 1990 one fifth of all natural tropical rain forest cover – an important home for various species – was lost. As much as 10 per cent of the world's coral reefs – habitats for marine ecosystems – have been degraded beyond recovery and the UN's Food and Agriculture Organisation reckons that 75 per cent of the world's crop varieties have become extinct.

So what are governments doing?

Worries about biodiversity, first voiced in the 1970s, led most of the world's governments to sign up to a UN Convention on Biological Diversity finalised at the Rio "Earth Summit" in 1992. Ministers from about 170 countries kicked off a 10-day conference in the Slovak capital yesterday to continue ways of improving the convention's implementation. They will also examine progress on developing a legally binding agreement to regulate cross-boundary movements of genetically modified organisms which may harm biodiversity.

That sounds to me like just another talking shop.

Yes and no. The convention does set out a lot of worthy principles which some countries are already following. Such governments promote some conservation of plants and animals and even block the odd construction or quarrying project in the name of biodiversity. An area of particular interest to biotechnology and drugs companies is the convention's stipulation that developing countries should share the profits from any commercial exploitation of microbes, plants, or animals found within their borders.

Where the convention falls down is its goal of transferring more funds from rich countries to pay for more environmental protection by developing countries, which see economic growth as their priority.

Although international organisations such as the World Bank are spending more money on the environment in the developing world, overall aid levels from rich countries have fallen since the 1992 Earth summit pledged to increase them. The US congress has not even ratified the treaty, let alone released money promised by the US government to help fund the treaty's implementation.

Is there any hope then of protecting biodiversity?

Having the treaty is better than nothing because it sets rules for all countries to aim for. Man-made catastrophes, such as the recent fires which spread from Indonesia to neighbouring countries, may help more developing countries to accept the argument that looking after the environment is in their long-term economic interest.

There are also nascent signs of private sector involvement that might help reverse these trends. That is made possible in part by a more constructive approach pursued by some environmental groups. In the last couple of years, the Worldwide Fund for Nature, for instance, has teamed up with several big companies to develop standards for certifying fish and timber produced in an environmentally sustainable manner.

FINANCIAL TIMES SURVEY

Tuesday May 5 1998

RHONE ALPES

Without a formal majority Charles Millon will try to govern France's top industrial region on an issue-by-issue basis, says Robert Graham

The Right tries to find its way

The graffiti around Lyon have taken an obscene tone as insults are scrawled on walls denigrating Charles Millon, president of the Rhône-Alpes region.

Mr Millon's "crime" has been to forge an alliance to govern the region with the help of the National Front whose racist and xenophobic policies have until now made it the pariah of French politics. "I have been taken aback by the violence of the reaction to what I have done," Mr Millon confesses.

But as a former defence minister and a politician with 20 years as a deputy for the liberal right-wing UDF, he was fully aware of the consequences of his action. He deliberately broke with party discipline and opted to rely on the support of the Front in order to run the Rhône-Alpes administrations in the wake of the March 15 regional elections.

UDF leaders in three other regions did the same. But Mr Millon's actions carried the greatest significance because he was the most prominent to break the long-standing taboo of dealing with the Front. Added weight was given to his move because of Rhône-Alpes' high economic profile within the French regional context.

Rhône-Alpes is the richest region after the Ile-de-France which includes Paris, and is the nation's largest source of industrial production. Per capita GDP is 10 per cent above the EU average and the region with its 5.5m inhabitants accounts for almost 12 per cent of GDP.

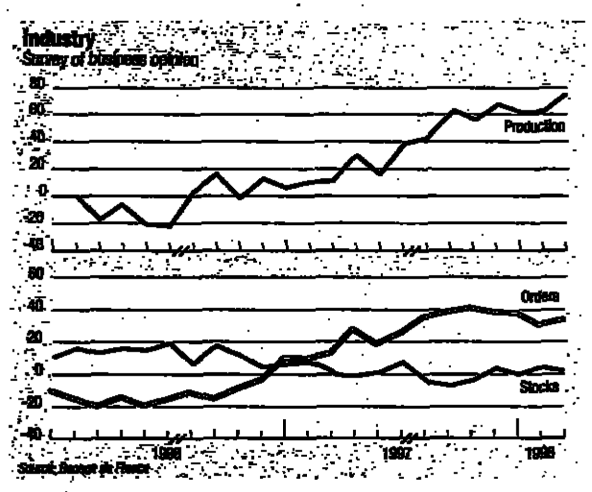
The spotlight is now on Mr Millon to see if he can both smooth the feathers ruffled by his turning to the National Front as well as make a success of governing this key region. "There has been no deal with the Front: they have simply accepted to endorse my six point programme," he says, insisting he will have no part of their racism or xenophobia. Unlike the National Front he has backed France joining the Euro.

He has no formal majority in the 157 seat regional assembly. "We will have to govern on an issue-by-issue basis," he adds. Some 45 councillors elected on the RPR and UDF ticket have followed him to form a party. Portentously called The Right, he hopes to turn it into "a broad-based party like the Conservatives in Britain". It would be open to any of the 18 per cent of the vote won by the Front in the recent elections by them.

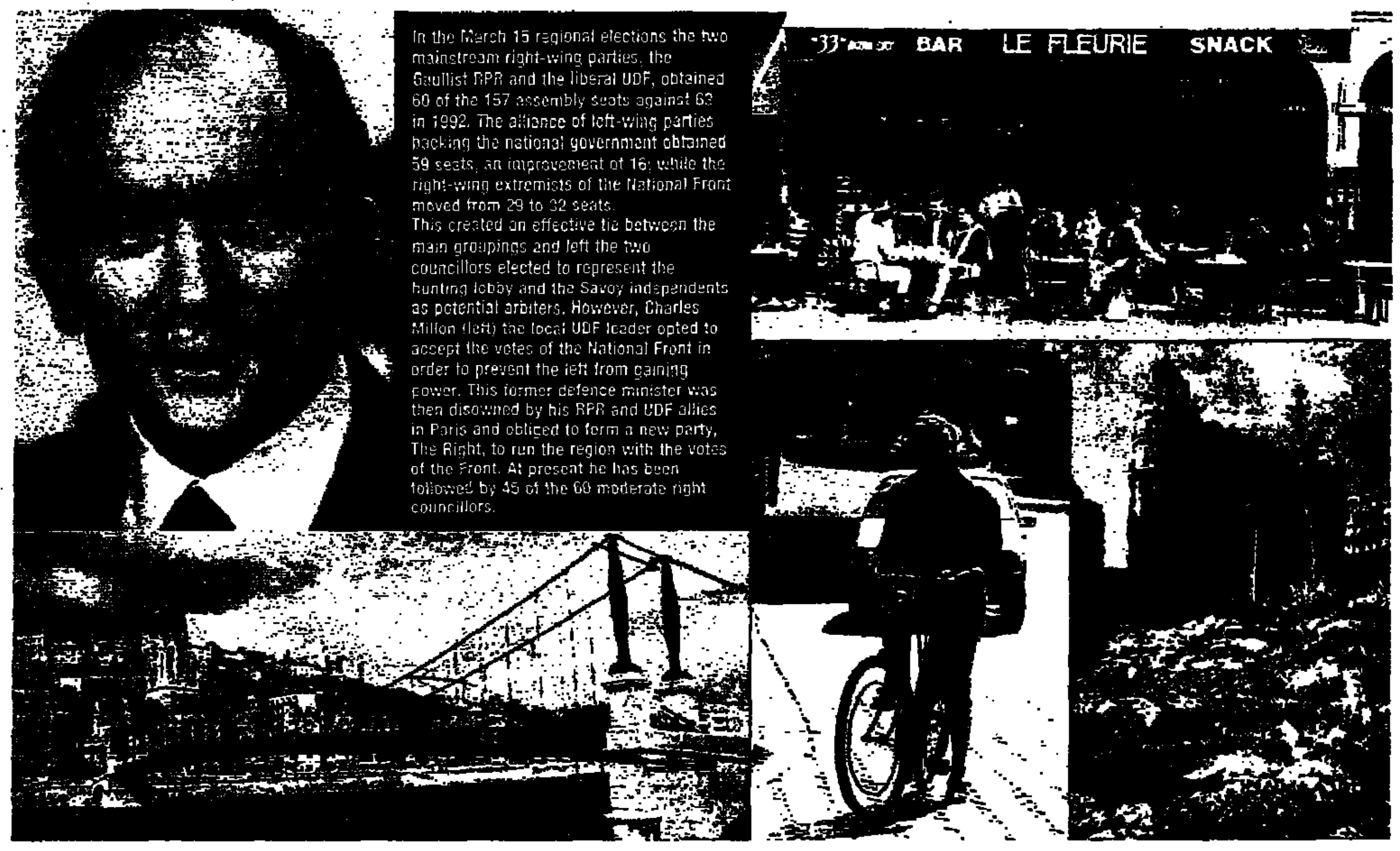
His policy is risky because the National Front could easily embarrass him on say immigration matters – where their policies are at the most extreme. Rather disarmingly, Mr Millon concedes the experiment may not last the full six-year term. But at the moment his strength is the absence of a viable alternative.

This will be a crucial period for the future shape of the region as France embraces the single European currency. Both in terms of its strategic location close to the core of Europe and its strongly diversified economic base, Rhône-Alpes is well placed to take advantage of the opportunities presented by full monetary union in the near future.

But it will continue to be hampered by the ambiguous position accorded the regions within the administration of national territory. Within Europe, regions have become increasingly fashionable units in which to formulate development policies and stimulate the growth of small and medium-sized companies – the real generators of employment. But France remains the most centralised of EU states and the political class while paying lip service to decentralisation is alarmed by the consequences.



Created only in 1982, the regions were the first timid attempt at a limited form of devolution. Entities were carved out with little reference to historical reality or local identities. Rhône-Alpes was no exception. The natural centre is Lyons and the binding force is the valley of the mighty river Rhône. But loyalties are linked to the towns or départments. There is even a small Savoy independence movement which acquired a seat in the Rhône-Alpes regional assembly on 6 per cent of the vote in March.



In the March 15 regional elections the two mainstream right-wing parties, the Gaullist RPR and the liberal UDF, obtained 60 of the 157 assembly seats against 63 in 1992. The alliance of left-wing parties backing the national government obtained 59 seats, an improvement of 16; while the right-wing extremists of the National Front moved from 29 to 32 seats.
This created an effective tie between the main groupings and left the two councillors elected to represent the hunting lobby and the Savoy independents as potential arbiters. However, Charles Millon (left) the local UDF leader opted to accept the votes of the National Front in order to prevent the left from gaining power. This former defence minister was then disowned by his RPR and UDF allies in Paris and obliged to form a new party, The Right, to run the region with the votes of the Front. At present he has been followed by 45 of the 60 moderate right councillors.

The regions are primarily responsible for major infrastructure, the framework for economic development and higher education. But the bulk of the funds come from central government in the budget which last year totalled FFrs7,300bn. The departments and large towns disburse more money, and the overall impression is of three layers of overlapping administration – with one layer too many.

"In an ideal world there should be a rationalisation of roles with perhaps the regions absorbing the departments," says Michel Rivoire, an adviser to Mr Millon. "But we have to be pragmatic and ensure we work well together – as we have tried to do organising our contribution to the football World Cup ."

Compared to regions like Catalonia in Spain or the German Lander, Rhône-Alpes has thus limited autonomy. At best Mr Millon believes he might be able to press for a small extra fiscal margin with say a regional fuel tax. But this need not prevent the region providing coherent direction to development and Mr Millon has two priorities – better linkage between the universities and business and industry; and pressing ahead with plans to expand the region as an integrated European transport hub round extended fast train (TGV) links and air connections.

Establishing closer ties between higher education and industry is an essential step enhancing the region's high academic reputation while providing a closer direct tie to employment and manufacturing. The region possesses the foremost mix of higher education opportunities in the country.

With high national employment costs, raising the level of skills and concentrating further on advanced technology is the best way Rhône-Alpes can compete for investment and satisfy the demand for jobs. Proof of the region's dynamism is the way France's economic recovery began here in the first half of last year, well ahead of the rest of the country.

Of equal importance will be the way the region's transport infrastructure evolves. Already the introduction of the Lyons-Paris TGV link has demonstrated the enormous impact of a fast train network. This now extends through to the Channel and up into Belgium. and will soon be extended down to Marseilles and Montpelier – two less wealthy areas which could benefit greatly from being brought within the Lyons industrial basin.

More interesting is the proposed TGV link through the Alps to northern Italy, bringing Turin within two hours reach. The project has produced a vast amount of glossy literature but the cost remains prohibitive. There is no commitment beyond improving the existing track to Turin at present; and in March the Jospin government said it preferred to spend money on a Paris-Strasbourg TGV line: politically more rewarding but less easy to justify as a strategic economic investment.

Much will now depend upon a combination of five elements – local Rhône-Alpes pressure on Paris, the attitude of the EU Commission towards aid, the commitment of the Italian authorities, the strength of the economies on either side of the Alps and the possibilities of private funding. Even with a modest project improving track, the effect will be significant. The region will begin to focus more on southern markets, and the trend will be reinforced as communications with Spain soon improve.

THE ECONOMY • by Robert Graham

Exports fuelling recovery

Unemployment remains below the national rate and business confidence is up

As France's economic recovery gathers pace, the balance of growth in the 22 different regions remains uneven. But the Rhône-Alpes is lucky to be well ahead in the cycle; and was one of the regions where the resurgence of economic activity first took hold last year.

For almost a year the trend in industrial production has been following a steadily rising curve. The fall-off recorded in January was no more than a temporary pause. According to the latest survey of business opinion conducted by the Bank of France, capacity utilisation is now at a seven-year high.

The region's broad-based industrial activity – responsible for 12 per cent of the national total and almost 15 per cent of France's exports – benefitted from a dynamic export performance last year. Although the rise in exports has begun to level off, this is being more than offset by domestic demand which is pushing up capacity utilisation.

Thus economists are confident that any impact from the Asian crisis, an area where Rhône-Alpes companies had begun to diversify vigorously, will be more than balanced by sales within France. There is also the added bonus that the economies of Germany and Italy – the two key neighbouring markets which account for a third of the region's trade – are on the same path of recovery.

One indicator of the way business picked-up ahead of the national average was the trend in imports of capital equipment and semi-finished products as companies began to upgrade plant. These imports increased 12.3 per cent against 8.4 per cent nationally – the trend being especially noticeable in the second half of 1997. Overall exports grew 13.9 per cent, the biggest increases being in the US market while in Europe the strongest demand came from the Netherlands and the UK.

As yet the effect of the recovery on employment has not been too noticeable. However, the more positive underlying picture tends to be obscured by the continuing change in the structure of employment.

Mature sectors have shed labour, especially at the unskilled end, to consolidate, raise productivity and invest in information technology. This has been most noted in the automotive business (Renault), chemicals/fibres (Rhône-Poulenc), glass-work (Saint-Gobain) and metals (Usinor).

Between 1983-95 manufacturing saw one in four jobs disappear as big industrial groups contracted. But against this companies investing in advanced technology such as biotechnology, IT, pharmaceuticals, chemicals and textiles more than doubled an admittedly smaller workforce.

At the same time there has been a considerable expansion in services. As a result Rhône-Alpes finds itself with a much more dynamic employment situation than the national average. The region is at least two percentage points below the national jobless rate of 12.1 per cent.

First time job seekers are beginning to find it easier to obtain employment. Last year the number of persons under 25 years-old seeking jobs fell by 16 per cent (compared to 10 per cent nationally); while overall the number of job-seekers fell almost 6 per cent, three times greater than the national average. This was due in part to the Jospin government's aid youth employment aid package.

But many of the new jobs are temporary – this is a more a question of circumventing the costs of permanent employment rather than the impermanence of the new jobs.

While business confidence is picking up, it remains to be seen to what extent companies will prefer to invest locally, elsewhere in France or abroad.

The region has set up Enterprise Rhône-Alpes International (ERAI) to promote its outward and inward investment. With companies now often relying on external markets for more than half of their sales, an international presence is becoming a question of survival. Within Europe, ERAI has set its priorities by establishing offices in Barcelona, Brussels, Stuttgart and Turin; while in the the emerging markets it is present in China, Brazil and Indonesia (the latter before the crisis).

But ensuring the internationalisation of Rhône-Alpes business is only one side of the picture. The region's continued dynamism requires a greater presence of foreign investors. In a report on business location prepared by Ernst and Young, the Rhône-Alpes region last year attracted only 34 investment projects by foreign companies – well behind the top region of Nord-Pas-de-Calais with 56.

Roughly one in four jobs in Rhône-Alpes are reckoned to be provided by foreign-owned companies or groups with a visible foreign stake. Of the foreign investors companies from four countries are easily the most significant – 28 per cent are US, 17 per cent Swiss, 16 per cent German and 11 per cent British.

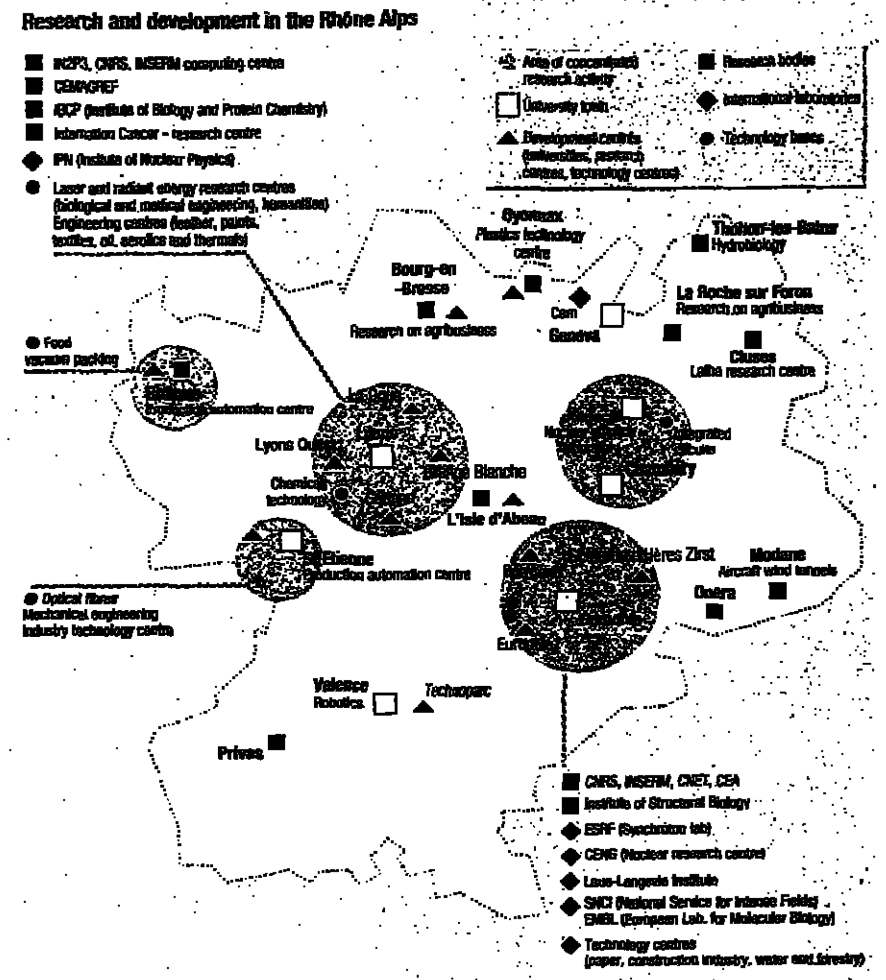
ERAI is making a particular effort to bring in more medium and small-sized companies, notably from Italy and Spain.

The region is powerless to alter the national investment climate whose rules, fiscal structure and employment costs deter potential investors. But it is determined to influence those areas over which it has more direct control like education and training.

Rhône-Alpes boasts nine universities with almost 200,000 students turning out high quality students. (The region is the foremost in France for thesis presentation). The aim now is to link industry and business more directly to the universities and the research institutes.

Equally, more attention needs to be devoted to boosting the skills of those at the bottom of the educational ladder, often among immigrant families, who are finding it most difficult to find jobs.

Research and development in the Rhône Alps



COMMUNITY PROFILE • by Robert Graham

Satellite suburbs pose problems of society

With a fine planetarium, modern sports centre, Charlie Chaplin cultural complex, municipal music school and four local libraries, the 45,000 inhabitants of Vaulx-en-Velin, a suburb of Lyons can scarcely claim to be a deprived community.

A great deal of money and effort has been lavished on them both by the state and by an enlightened town council determined to enrich local lives and leisure. But this is are not enough to prevent Vaulx-en-Velin from being among the most problematic communities in the region.

Vaulx-en-Velin has come to contain all the ingredients that foment urban discontent and social marginalisation. As Maurice Charrier, the leftist mayor since 1985, likes to say: "Vaulx-en-Velin and the suburbs do not pose a threat to society but pose problems of our society."

Rapid urban growth has spawned soulless high-rise public housing; the traditional industrial base has disappeared; large numbers of jobless youths with poor skills await employers with little hope. Almost half of those seeking jobs aged between 15 and 25 can find no work. The population itself is young with almost 35 per cent under 20 years-old. There is also a large agglomeration of immigrants – many with children who are not assimilated into French culture but who are equally uncomfortable with that of their parents.

This cocktail has proved explosive with outbursts of serious violence and rioting as in 1990 and can be seen in similar towns near Lyons like Vénissieux. Vaulx-en-Velin still has above average levels of petty crime and youth alienation. A recent report on problem satellite towns in the Lyons area talked of "delinquency being far from under control and the feeling of insecurity on the increase".

In the past three years crimes by minors increased by 50 per cent, according to a report presented to a conference on urban problems last December. The authorities are aware that only if these problems are tackled can communities like Vaulx-en-Velin share in the wealth of the region.

"You cannot minimise the problems but an enormous effort is being made to come to terms with them," says Simon Bertin, the assistant secretary-general running the administration. "Right now we are trying to ensure there is a proper town centre."

This is being created around the tower of the late 1970s municipal building of concrete and glass which sits on top of a partially-filled shopping centre in a no man's land between other high-rise blocks and the original town. A road system is being built to ensure the tower forms the centre of the town, like the traditional Hotel de Ville. An effort is also underway to improve public security.

In part Vaulx-en-Velin is a victim of past errors of town planning. The community was encouraged to grow too quickly, providing cheap immigrant labour for labour-intensive industries like synthetic fibres and textiles.

Sited in part of the Rhône's ancient river bed, Vaulx-en-Velin was a satellite of Lyons until the early 1960s. But in the past 30 years its population has more than tripled and it is now the ninth largest town in the region just behind Annecy and Chambéry.

The first immigrants were Poles and Silesians at the turn of the century, followed by Armenians. In the 1930s, Italians arrived to catch the tail end of the silk boom. By the second world war, the proportion of immigrants to indigenous French was close to 50-50. But the main influx has been since 1962 when Algeria acquired its independence; a district of the town was built between 1963-65 to house the influx.

The population from 1962 to the last census in 1990 moved from 12,000 to 44,500. This reflected a French rural exodus and arrivals mainly from the Maghreb. No less than 46 nationalities were counted in the last census which showed 23 per cent of the population was foreign. If those of Algerian origin granted French citizenship in the wake of the Algerian independence were added, the percentage would have been higher. Vaulx-en-Velin possesses the largest foreign community in the area and is almost three times the average for the Rhône-Alpes region.

Low-cost popular housing was championed by the post-war left-wing administration of Vaulx which enabled it to be designated in the late 1960s an urban priority zone (ZUP). Almost two thirds of the town's housing stock is publicly owned.

More recently, Vaulx has been classified by Paris as one of 11 towns in special need of attention as a "big urban project" (GPU). This is an attempt to link the town's development with local and regional transport axis, and better co-ordination of the area's public services.

An increased emphasis on education has only just begun to impact on school drop-outs.

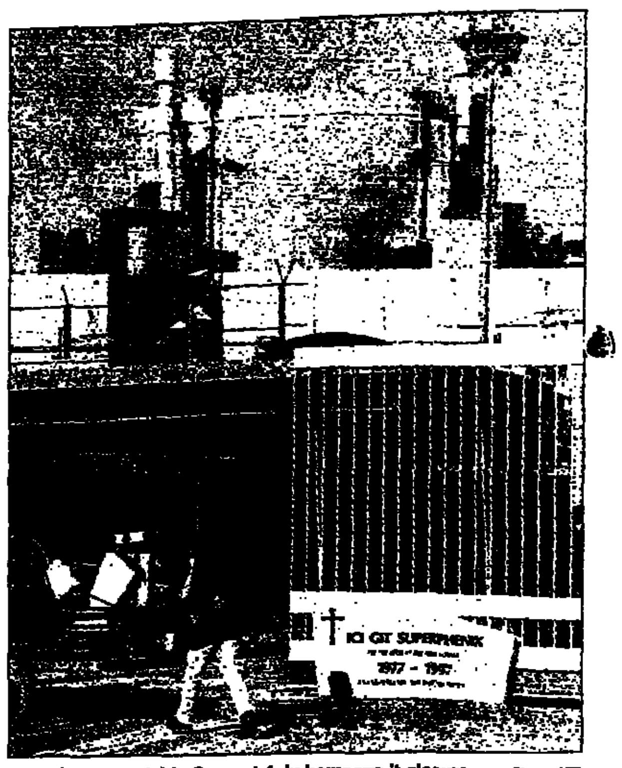
The municipality has been allowed by Paris to set up an urban free zone (ZFU) offering tax breaks to companies seeking to rebase or establish in Vaulx. Of 127 companies taking advantage of the ZFU last year, 95 were new. Companies exploiting these tax breaks must employ at least 20 per cent of their workforce locally.

Even if the results are slow to show, mayor Charrier's policies enjoy a strong degree of popular backing. In the March cantonal elections he obtained 40 per cent of the vote, up on his score in 1992.

ELECTRICITY • by David Owen

Grief mixed with relief at closure

Turning point for an industry more accustomed to opening plants



A tombstone outside Superphénix bemoans it closure Photo: AFP

"Here lies Superphénix. Killed by the state and by Mme Voynet [the leader of the Greens and environment minister]. 1977-1997. In memory of 3,000 lost jobs."

A grey tombstone carrying the above inscription has appeared at the entrance to the world's largest fast reactor at Creys-Malville, 60km east of Lyons. The nuclear-powered electricity plant's permanent closure was confirmed by prime minister Lionel Jospin's government in February. The stone bears witness to the strength of feeling aroused by that decision.

For the controversial reactor's supporters, the move is ill-advised, ill-timed (with unemployment at more than 12 per cent) and politically motivated. For its opponents, it constitutes a long overdue coup de grâce for a vastly expensive and dangerous white elephant and, in some cases, a welcome first blow against the country's powerful nuclear lobby.

In an age when many countries have shied away from or slowed down development of nuclear power, France remains Europe's undisputed nuclear champion. More than 50 nuclear reactors, from Fessenheim in the east to Flamanville and Blayais in the west, account for about three-quarters of the country's electricity production. Rhône-Alpes contains four orthodox (pressurised water) nuclear power stations in addition to Superphénix.

The main rationale for this nuclear build-up was to reduce the vulnerability of France, a country poor in fossil fuel resources, to oil shocks such as that which shook the world economy 25 years ago. Fast reactors, such as Superphénix, held out the promise of protection not just from oil shocks, but from possible future uranium shocks. This was because they could, in theory, produce – or "breed" – enough plutonium to supply their own fuel.

But the need for a self-sufficient nuclear reactor has appeared much less pressing ever since the Chernobyl accident and the end of the cold war stopped the nuclear industry dead in its tracks. Add to that the high costs associated with Superphénix and the reactor's patchy operating record and the project's days have, to many, seemed numbered for some time. Certainly, the closure decision is not a difficult one for the government to justify. Nonetheless, it marks a turning point in a country that has grown used to opening new nuclear power stations, not closing them.

Following the decision, the industry is faced with a substantial dismantling operation expected to take decades to complete. Details are still unclear and a decree covering the initial stages of the operation is not expected to be completed until later this year. However, the government has already given some indication of how it expects to proceed.

The first two steps in the process, for example, will be the unloading of the partly used core of the reactor – still the original first loaded in 1985 – and the draining of the approximately 5,500 tonnes of sodium present in the plant.

The core is to be transferred to a ready-built 17-metre deep on-site pool containing 2,350 cubic metres of demineralised water. According to Pierre Schmitt, Lyons-based director of fast reactor engineering for Electricité de France, this pool can accommodate 1,400 objects, compared with about 600 which need to be unloaded.

The unloading process is not expected to begin before the first half of 1999 and is expected to last about 18 months. The government says the pool can safely house the used fuel for at least 20 years.

Liquid sodium is used in fast reactors instead of water to take away the heat produced by the process of splitting heavy atoms into lighter ones, and to transfer the energy to electricity generators. In the case of Superphénix, 3,300 tonnes of sodium is in a primary circuit in the reactor vessel and is radioactive. Most of the rest is in secondary circuits and, according to the government, is "very slightly radioactive".

Sodium crystallises below 97 degrees C, so some heat must be generated even when the reactor is shut down to keep it fluid. This is achieved by keeping the plant's primary pumps running. This accounts for the terrific din under the dome of the reactor building even today, nearly 18 months after the plant was shut down for, it appears, the last time on Christmas Eve 1996. The state may have killed Superphénix, but the quiet of the grave does not yet reign there.

The sodium draining operation can only begin after the reactor core has been unloaded. It is thus unlikely to start before 2001. Mr Schmitt estimates this material could be "destroyed" by converting it into 12-15,000 tonnes of chemically neutral sodium sulphate within three years, although he suggests it could take five years to make sure it has been removed from every last nook and cranny of the reactor.

It is not yet clear whether this destruction process will begin immediately the sodium is removed. If it does not, Mr Schmitt says the sodium would be stored on site in reservoirs in metallic form. He indicates that some 860 cubic metres of additional reservoir capacity would need to be built to accommodate all the material. According to the government, stocking the sodium "in a frozen state and under a neutral gas" would be safe for at least 20 years, enabling the sodium to be eliminated gradually.

After that, details become more sketchy, although it seems clear that, at some point, outbuildings on the site will be removed, leaving the reactor itself in its protective "cocoon". This would probably remain untouched for up to 40 years.

According to EdF, about 700 employees are likely to be needed on site until 2005, down from 1,200 at the time of the closure announcement. This will probably be cut by a further 200 once unloading of the reactor core has been completed. A FFr15m a year economic development fund to create jobs in the surprisingly-rustic Creys-Malville area has been set up for a period of five years.

EdF – which has been entrusted with running the plant by Nersa, the company which owns it – puts the overall cost of the shutdown at FFr16.5bn, including more than FFr4bn for repaying residual debt. It has established provisions for meeting these costs, including FFr4.5bn in its 1997 accounts.

Nersa is owned 51 per cent by EdF, 33 per cent by Enel of Italy and 16 per cent by Germany's SBK. SBK, in turn, groups the following companies: RWE of Germany – 70.5 per cent; SEP of the Netherlands – 14.75 per cent; and Electrabel of Belgium – 14.75 per cent.

Fast reactors throughout the world

	Electric power	Commissioning date
France		
Creys-Malville (Superphénix)*	1,240MW	1986
Marcoule (Phénix)**	250MW	1973
Russia		
Obninsk (BR5)***	(10MW th)	1958
Melekess (B.O.R. 60)***	12MW	1969
Beloyarsk (BN 600)*	600MW	1980
Kazakhstan		
Aktau (BN 350)***	150MW	1973
Japan		
Oarai (Joyo)***	–	1977
Monju (FPBR)**	300MW	1995
India		
Kalpakkam (FBTR)***	15MW	1985

Source: Site Creys-Malville [illegible]

INFRASTRUCTURE • by Andrew Jack

Trains and boats and plain speaking

The Rhine-Rhône canal has been abandoned but other links are in the pipeline

There is a mock "liquidation" sign on the door of the Compagnie Nationale du Rhône in Lyons. In the office of Jacques Michel, one of the senior executives, the walls are blank. The plans and drawings of the project on which he has worked for years have been removed.

Last year, the French government abandoned one of the most ambitious infrastructure projects imaginable for the region.

Since the early 1960s, planners had dreamed of revitalising France's canal system to connect leading ports and tap into the water-bound navigation systems of other countries. "Water transport accounts for 20 per cent of freight traffic in Germany and just 2 per cent in France," says Mr Michel. "Yet France has 8,500km of canals: the biggest network in Europe, if not the world."

The link would have connected the German river system with the Rhône, which is navigable by industrial traffic from Marseilles as far north as Lyons. The preferred route would have connected the Saône north of Lyons with the Rhine at Mulhouse. This "Rhine-Rhône canal", according to Mr Michel, involved 229km of work.

After a public inquiry held after initial political decisions in the early 1970s, the project was voted a public utility, the Compagnie Nationale du Rhône was given management and operational control, and land purchases begun.

By 1995, a system of financing had been put in place, with Electricite de France, the state electricity monopoly, obliged to ear-mark reserves estimated as the difference between the production cost of electricity on the Rhône (generated by the Compagnie Nationale du Rhône along the river) and its retail costs. Mr Michel estimates that this sum now represents FFr30-40bn.

Political figures – from Raymond Barre, the centre-right former prime minister and now mayor of Lyons, to Charles Hernu, the former Socialist defence minister – had lent support to the scheme over the years, and an amendment in 1995 to regional development legislation introduced by Jean-Claude Gaudin, the centre-right minister and mayor of Marseilles, seemed to have given it the final approvals.

But France's Green party, concerned with the ecological damage that would have been caused, made abandoning the canal a central elements of its manifesto in the 1997 general election. Faced with the need to form a coalition of left-wing parties in order to govern, the Socialists of Lionel Jospin agreed.

When Dominique Voynet, the new leader of the Greens, was named environment minister, she carried out her pledge to cancel the declaration of public utility of the project. "I think it's now dead," says Mr Michel with an air of resignation.

The decision was greeted with relief by many. So was the project a good idea? In an office – symbolically and probably fortunately for the two protagonists on the far side of the city, Alain Bonnafous, a professor and transport economist at the University of Lyons, says bluntly: "The Rhine-Rhône canal was an enormous astonishing historical joke that could only have taken place in France."

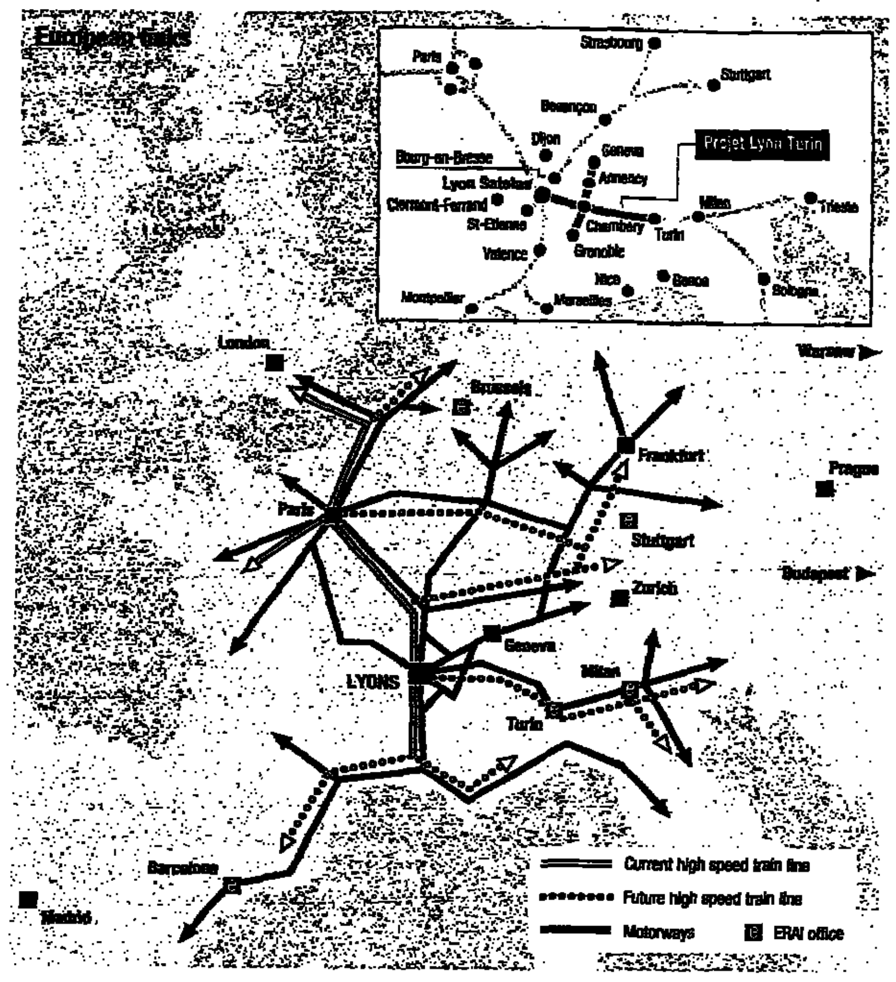
Mr Michel says that Prof Bonnafous has been "bought by the SNCF", the French national railway company, and argues that the canal was destroyed by a mixture of pressure from the road lobby, "technocrats" and Parisians who were disdainful because the project would not have helped them. He says it had a high internal rate of return that would have allowed the canal to pay for itself relatively rapidly, and that the total cost would have been some Ffr17.3bn plus VAT.

For Prof Bonnafous and an apparently large number of other experts – the true cost of construction would have run to nearer Ffr40bn, while the freight carried by water would have been "equivalent to one train per day in each direction".

If Ms Voynet found widespread support for her decision about the Rhine-Rhône canal, she has become unpopular for other reasons. As well as cencelling two Alpine road links, she provoked wrath for her administration's decision earlier this year to push ahead with a new TGV high-speed train link into Strasbourg, Alsace.

While the two-hour Paris-Lyons TGV link has proved profitable, the connection to the east of France has been made on more shaky commercial grounds. By the start of the next century, the Lyons link will stretch down to Marseilles, branching westwards to Nimes and eastwards to Frejus.

But regional planners and politicians had long been lobbying for a connection from Lyons to Turin. "That would really transform the geography of Europe," says Prof Bonnafous. But the priority given to the TGV-Est means that this link will probably have to wait for up to a decade.



PROFILE Norbert Dentressangle

Unfashionable at the start


Dentressangle: UK start

Britain's strengths as a business location seem increasingly well appreciated these days by French entrepreneurs. Even so, it is probably safe to say that few French business leaders can claim to have started their first company in Leytonstone, an unfashionable area of east London.

"The rents were not too expensive," says Norbert Dentressangle, explaining his decision to set up in east London in the late 1970s. "At the beginning, it was very difficult, we needed a lot of tenacity and courage ... but the UK is a country with which it is very interesting to work."

The chairman of the eponymous French transport and logistics company, based nowadays at Saint-Vallier-sur-Rhône 60km south of Lyons, has come a long way. The company, of which he still owns 70 per cent has 3,500 motor vehicles, 6,200 staff and an annual turnover of more than FFr3bn ($500m).

Its lorries have become a well-known feature of European roads, especially in France and the UK. Indeed, the combination of Dentressangle's distinctive name and their bright red livery has earned the company a cult status similar to that of Eddie Stobart, the UK road haulier. Mr Dentressangle says he is "very admiring" of the way Stobart has instilled a culture of smartness and tie-wearing among its drivers. "We have done alright on the look of our vehicles and warehouses, but it is not so much a part of French culture to wear uniforms," he says.

Mr Dentressangle set up in Leytonstone because he spotted an opportunity transporting goods on the France-UK route.

"I understood that the market for commercial exchanges between different countries, especially between the UK and France was an important development," he says. "I understood that the market was difficult because of the insularity of the UK and the geographic barrier. Also there was an imbalance of trade in the two directions with much more traffic moving towards the UK. That is why I created my first company in the UK: to build up market share for the return journey."

In the early days, fruit and vegetables were the staple cargo, at least on the France to England leg. As Mr Dentressangle recalls, the Drôme region had become a big producer of golden delicious apples. The British were fond of them, so they filled up many lorries.

Turnover had risen to about FFr750m by 1988, so Mr Dentressangle decided to expand and bought 20-25 transport companies inside and outside France over the next few years. In 1994, the group decided to float.

The company is now a European-wide transport and logistics operation.

In spite of its expansion, the France-UK route is still important to the group, accounting for about 25 per cent of turnover. Mr Dentressangle says the company is market leader for transport between the UK and Europe in both directions. Its vehicles make 140,000 English channel crossings a year.

The original Dentressangle lorries – those of Norbert's father Georges – were blue. "I had a need to differentiate myself," says Mr Dentressangle, aged 44.

The recent widely publicised French truckers' strikes have done little for the image of the country's road haulage industry, as well as costing the company FFr25m in 1996 and FFr15m last year. Annual net attributable profits were restricted to FFr80.3m in 1997 – a relatively small 3.6 per cent year-on-year advance.

Reflecting on the strikes, Mr Dentressangle says he has always acknowledged "the need for the profession of truck driver to be more highly valued. But it is a notion shared by few of our clients. Because the market is competitive and there is this need for the profession to be more highly valued, the price war was transferred into social pressures which are the root explanation of the events of the past couple of years."

David Owen

PROFILE Ecole Hotelière Tsuji

From sushi chefs to sous chefs


Tsuji students: 'They suffer from indigestion before they get used to the food here'

A small château in the heart of Beaujolais country probably has the most spoilt secretaries and cleaning ladies anywhere in France. Lobster and foie gras are regularly on the menu in their canteen, where they sit at elegantly-presented tables and are served by waiters.

But if one thing stands out at the Château du l'Eclair in the village of Liergues, it is the nationality of the waiters, and of those behind the scenes.

A clue lies in the village's public telephone cabin, which earns the highest receipts of any in the Rhône-Alpes region. Another hint is the post office, where the proprietor is learning a language in which some of the instructions in the bureau are also written: Japanese.

Over the past 18 years, the château has taught the finer points of French cuisine. It trains 60 young Japanese school-leavers at a time, in either cooking or patisserie skills.

In 1960, Shizuo Tsuji, a Japanese cultural journalist who frequently visited Europe and had met the Lyons chef Paul Bocuse, decided to set up a culinary school in his country. His schools in Tokyo and Osaka now train some 2,000 people a year.

In 1979, Mr Bocuse suggested that Tsuji might want to buy Château de l'Eclair, which had come onto the market, to use as a second home. Once he'd visited the 50-hectare site which he acquired for just FFr1m, the former journalist decided to turn it into a school.

A year later, it opened its doors to the first group of students, who spend six months learning their trade – as well as the French language – followed by six months working in a restaurant. They pay Ffr150,000 for their time in the school – a price which, although high, includes board and is not so different from equivalent training within Japan.

As a group of students dressed in white jackets diligently takes a French dictation – of the next day's menu – Hiroyuki Nakano, deputy director of the school, jokes that it is far more difficult for the students to tackle the language than to learn the finer points of cooking.

Pierre Beal, director of the school, stresses that there are some strong connections linking France and Japan, that have helped bridge the cultural gap. "Both countries have ancient civilisations," he says. "Food is very important and refined. Many Japanese see European culture as an attractive alternative to American."

He argues that "Japanese food is extremely sophisticated. It consists of extracting all the bad elements in ingredients and leaving only the best, where the ingredients are recomposed in the mouth. The taste is very personal. French food is a cuisine where you add and mix: the tastes are controlled by the chef."

Mr Beal says that the students – many still teenagers – are considered "like young children" who have to learn new tastes like babies. "The seasoning is totally different. Japanese cooking does not have pepper or spices. We start them off tasting white, soft cheese with little taste, and then progress to other things: sugar, salt, spices. We eat less fish, and more cooked food in France, and much more meat – which is a luxury in Japan."

Indeed, Mr Nakano says that – while the stress at adjusting to the new culture far away from their families can be difficult – the most significant problem that the students face when they arrive is purely physiological. "They suffer from indigestion, before they get used to the food here."

On the other hand, Mr Beal argues that the politeness and respect for elders in Japanese society means that they are well suited to the culture of service which is important in their training – not to mention reducing to a minimum the disciplinary concerns that he has compared to his colleagues in French colleges.

While professional cooking remains a relatively macho profession in France, Mr Beal says nearly half of the school's students are young women. That may partly reflect the esteem in which cooking is held in the society – "top chefs are highly regarded, but not cooks in general". But he also highlights the evolution in the role of Japanese women. "We have seen an enormous change. Ten years ago, the women still hid their faces here when they laughed. That is no longer the case," he says.

So is there any hostility to the school, and the idea that the Japanese are "stealing" French culinary expertise? "Not at all," says Mr Beal. "We can't send out enough students to restaurants." And so far, none of the trainees have presented any "threat" by staying in France – although many come back to visit, and show their spouses where they learnt an essential element of their craft.

A. J

PROFILE Compagnie des Alpes

Attitude on altitude

When the chairman of the world's largest operator of ski resorts wants to relax, he avoids the snow. "I'm always thinking about work when I'm going down the slopes," he says. "I prefer to go fishing."

Over the past decade, Jean-Pierre Sonois has built up Compagnie des Alpes, a quoted French company which handles more than 8.2m skiers and 91m descents each year, around the idea of a central principle: specialisation.

A former executive with Havas Voyages, a holiday operator, in 1988 Sonois approached the Caisse des Depots et Consignations, the state-controlled financial institution which owns a diverse range of assets and operating businesses.

"They had 25 separate companies in the fields of tourism and property development," he says. "I said they should create a company driven by the idea of a single service rather than grouped around ski stations. I think the result has proved me right."

Since Compagnie des Alpes was formally created in 1989, it has not sat still. Through its fully or partly-owned subsidiaries, it now operates the ski lifts at nine stations - including la Plagne, Tignes, les Arcs, Peisey-Vellandry, les Mennires, Meribel Alpina, les Grands Montets and Courmayeur Mont Blanc.

Its most recent acquisition, in co-ordination with Meribel Alpina, of which it owns 38 per cent, was in January, when it bought four of the five ski lift concessions in the Grand Massif in Haute Savoie from CDR, the entity set up to sell assets formerly owned by the French state-controlled bank Credit Lyonnais.

For the past five years, turnover and net profit have both risen by an average of 14 per cent a year. There has been one acquisition a year, and the occasional divestment.

And it has gradually opened its capital to outside investors, as the Caisse des Depot has reduced its participation over the past decade from 100 per cent to 57 per cent. "We were the first of its subsidiaries to have other shareholders," he says. "It was a revolution. But it means you pay heed to competition, and the need to pay dividends."

Foreign mutual funds now account for 20 per cent of the investors, and the figure could rise – even though the Caisse has made it clear it wants to retain at least 51 per cent. Separately, Meribel Alpina is itself quoted.

Concentration has given the company sufficient capital to make the substantial investments. A ski lift, which may last 15-20 years, can cost FFr15m or more. And clients are becoming ever more demanding.

They are no longer content with low-cost "button lifts", for example says Mr Sonois. Skiers are making more descents than ever – an average of 11 or 12 daily – and they want to use lifts that are less tiring.

Changing trends in skiing have made other capital-intensive demands too. Machines to flatten the slopes after use are expensive. "Clients demand cleaner, flattened slopes, that are well flagged, and have the rocks and bumps removed."

Focusing on a business has allowed Compagnie des Alpes to avoid the errors of some other resort operators who owned hotels and apartments and were hit during the French property crisis of the early and mid 1990s.

Just 5 per cent of Compagnie des Alpes' revenue comes from sources other than ski passes: shops and restaurants. However, it does have 188,000 square metres of land with construction permission granted, and has provided assistance to owners of existing property to allow them to convert their flats into rental accommodation, in efforts to boost capacity.

He also continues to express an interest in buying resorts including stations outside France, although he stresses they must be at relatively high altitudes. He also wants internationally-oriented resorts. "We can't survive on French customers alone," he says.

A. J

WORLD CUP • by David Owen

Tournament engine room

Seven teams are staying in the region for at least part of the tournament

The Geoffroy Guichard stadium in industrial Saint-Etienne is one of the holy places of French football. Raucous and atmospheric, the so-called cauldron was home to the all-conquering Saint-Etienne team of the late 1960s and 1970s – "les Verts" – which reached the 1976 European cup final only to lose narrowly to Germany's Bayern Munich.

"It was hell," recalls Serge Mesonès, a former captain of the Auxerre team who is now football representative in the office of Marie-George Buffet, the French sports minister, when asked what it was like to play there.

The Saint-Etienne side now languishes in the French second division. But the stadium, extensively refitted at a cost of FFr98m, is one of 10 chosen to stage matches in this year's football World Cup, which will take place in France in June and July.

With the Gerland stadium in Lyons also on the World Cup list, it means that 12 of the 64 scheduled matches will take place in the Rhône-Alpes region. This is a higher number than any other region except for Ile de France, the one containing Paris, and should help to keep Rhône-Alpes at the heart of the action, particularly in the tournament's early stages.

Curiously, the match that has probably aroused the most interest, of those due to take place in Lyons and Saint-Etienne, involves two teams with little hope of winning the tournament. On Sunday, June 21, Iran will take on the United States in Lyons in a game that may determine little more than who finishes last in group F. It is the sort of tie in which the political overtones are likely to overshadow anything that takes place on the pitch. But it will be closely watched for all that.

St Etienne conquered all but Bayern Munich in the 1976 European Cup. Now the region is playing a key role in the World Cup Popperfoto

Indeed, if thoroughness of preparation is any guide, observers should perhaps be prepared for the US team to spring the odd surprise in its group matches, which also include games against Germany and Yugoslavia.

Olivier Dutreil, project manager for the World Cup in the Rhône-Alpes region, describes the US as among the most professional of the organisations he has come into direct contact with. He says the region received visits from delegations from 14 different countries in all, seven of which are taking up residence in Rhône-Alpes for at least part of the tournament. The US has chosen the Château du Pizay at Saint-Jean-d'Ardières in Beaujolais country between Mâcon and Lyons. Mr Dutreil says that England has taken out an option to use the château later in the tournament; the English side could conceivably play at either Lyons or Saint-Etienne in the later stages.

Iran will be based in rural Auvergne, the neighbouring region to Rhône-Alpes, where the team is to stay, rather improbably, at France's Ecole Nationale Supérieure de la Pâtisserie in Yssingeaux. Jacques Barrot, the local mayor who served as labour minister under former prime minister Alain Juppé, makes no secret of where his sympathies will lie in the big game on June 21. "We will support them against the US," he says.

Among the best first-round matches staged in Rhône-Alpes in footballing terms may well be the clash between the host nation France, among the favourites to win the tournament, and Denmark. Colombia versus Romania and Mexico versus the Netherlands also promise to be particularly entertaining fixtures.

Saint-Etienne is also to host Scotland and its "tartan army" of supporters against Morocco in a game both sides may well need to win to stand any chance of advancing to the knock-out phase. According to promotional literature circulated by the town of Saint-Etienne, the "Scottish delegation" is planning a musical procession "en kilt" from the town hall to the stadium before the match. The Scottish team has already played in Saint-Etienne, going down 2-1 to France in a friendly international last November.

One peculiarity of the stadium, whose capacity is now fixed at 36,000, is that fences erected to prevent spectators from running onto the pitch will remain in place. Bernard Puillet, head of press relations at the Saint-Etienne venue, says it would be expensive to take the fences down. Moreover, Geoffroy Guichard is a stadium where spectators are particularly close to the pitch and Saint-Etienne's traditional supporters are "agitated".

By no means all the seven teams expected to reside in Rhône-Alpes will necessarily play a match in the region. "We sold the idea of teams having a base camp and travelling to other matches," says Mr Dutreil, adding that Lyons has the shortest average distance to other stadiums and a good transport infrastructure.

In addition to the US, the list comprises Argentina, Belgium, Colombia, Japan, Tunisia and Yugoslavia. Their geographic spread is wide, with teams scattered at locations from Aix-les-Bains and La-Tour-du-Pin in the east to Montbrieux in the north and Montbucher-sur-Jabron in the south.

Mr Dutreil says he has found his experience as project manager very interesting, with teams showing a marked divergence in attitudes on subjects as varied as golf and the presence of wives and partners in the vicinity of where teams are staying. On the first of these, he said he found England and Denmark particularly keen for a golf course to be available near the team hotel. Norway, by contrast, was very much anti-golf. In general, he says, he had found that football was "a very professional world".

PROFILE **Maison Bernachon**

Keeping chocolate in proportion

Everyone in Lyon knows the Maison Bernachon, and Mr Bernachon – one of the best-known traditional chocolate makers in France – in turn knows its customers very well.

When an elegant blonde woman walks in to the tea room, she says hello and makes her way to her usual table. Without asking, the server brings her regular order of coffee, accompanied by a little piece of chocolate.

Mr Bernachon himself, a youthful-looking, jovial white-haired 80-year old, dressed in his chocolatier's apron, remains active in the business he founded even though he had a heart attack last winter, and was warned by his doctor of the need to take the choice between "less activity and the cemetery".

When he started making chocolate, in 1934, he says there were some 300 professional artisans who roasted cocoa beans in France. Now there are at best 25.

The nature of clients has changed considerably too. "They were more demanding in the past," he says. They were also more select, and had time to wait while their orders were wrapped in front of them.

He welcomes the fact that advertising and social trends have helped spread purchases a little more evenly throughout the year – even if Christmas, New Year and Easter still account for half of his annual sales.

Despite the emergence of large, industrial chocolate producers, Bernachon has remained resistant to change. His products are made by hand with natural ingredients, at considerable cost: cocoa from Brazil and Venezuela, pistachios from Sicily, almonds from Spain, hazelnuts from Piedmont. Equally, the drinking chocolate in his tea-room is made from liquid with hot milk added, not from powder.

"Industrial manufacturing has been to the detriment of quality," he says. "Chemists can make substitutes for vanilla, or use peanuts in place of almonds. We want to remain traditionalist. I think there is a place for us, but I often say that I am fighting a battle which is lost in advance."

Maintaining traditional production methods has not been easy. When he needed to buy new machines a few years ago, he found it was impossible to find small manufacturers who could make the made-to-measure equipment in France. After fruitless research in other places including Milan, he eventually found a small supplier in Switzerland.

He criticises as "ridiculous" some of the safety regulations and health inspections to which he is now periodically subjected – and which he says he has always passed without problems. "We use top quality ingredients. If we used powdered eggs and milk, and synthetic products, the chemists would always think everything was fine."

Mr Bernachon was brought up in a small village in Isère, and left school at 14. "My teacher said I would make a good teacher," he says. "But my mother was very religious, and asked the priest, who said I should do a manual job, and why not a confiseur?"

"I asked myself for years afterwards why," he says. "I think it was perhaps because when I was sent to confession every two weeks at that age I didn't have many sins to admit to, so I used to confess to gluttony."

He spent two years of his apprenticeship with a well-known chocolatier in Le Pont de Beauvoisin: "There was a great attraction, with all these products arriving from exotic places around the world. It was very different then, there were few machines," he says. But what was the hardest part of the training for him? "For a young man like me, it was getting up at 5am!"

French chocolate consumption was greatest in colder, mountainous towns: notably Grenoble, Chambery and Annecy. But Bernachon was drawn instead to Lyon, which he says was "a lively town with a select clientele." He spent the next two years in the city with Coillard, another chocolatier, whose business closed 15 years ago for lack of heirs.

Then, just before the second world war, he came to finish his training with the chocolatier Durant, in the building where he still remains today, continuing a 130-year tradition on the premises. Demobilised after the war, he faced a difficult period when "you could not get cocoa, sugar or butter."

In 1953, with support from the local business community – and not from a bank – he acquired the company when Durant decided to retire. Starting with "12 employees, 150 square metres and a good reputation," he went on to add space, a tea room and grow the business to 60 staff today.

"I was never tempted by Paris," he says. "This is enough for us. We don't want to do things that are out of proportion." But as he eases himself into a more relaxed role, he can be comforted by the fact that his children and grand-children are taking over and will maintain the business. And his clients show every sign of continuing their patronage.

Andrew Jack

ART RETROSPECTIVES AT THE NEW YORK MET

The end of the affair

Paul Jeromack reviews Pajou and Prud'hon

Sooner or later, every artist will undergo a cold, unforgiving trial. Reputations are either confirmed or shredded by them. One leaves exhilarated and sated, or nursing the bittersweet disappointment of a broken love affair where you understand the initial attraction but wonder how you could have been so deceived.

This trial is, of course, the museum retrospective exhibition. The dead artist, in particular, is at the mercy of many – the organising curator, the museum director, assorted collectors and museums, and the galleries themselves – well or poorly lit, the wall colours chosen with care or clashing.

There are two retrospectives on view at New York's Metropolitan Museum of Art, and neither artist is familiar to a majority of visitors: the sculptor Augustin Pajou

One would not want to mess with Madame Aved, the no-nonsense, wart-spotted wife of the painter J. Aved

(1730-1809) and the painter Pierre-Paul Prud'hon (1758-1823), both of which come to the Met from the Louvre. At a time when most American museums give older art short shrift in favour of concocting yet more ways to repackage impressionism, the Met deserves credit for doing these shows at all.

Augustin Pajou needs no apologies. His retrospective has been assembled with care by curators Guilhem Scherf of the Louvre and James David Draper of the New York Met. It offers not just a career overview, but a valuable lesson in the role of sculpture in public life at a time when contemporary figurative sculpture has been reduced to the likes of the stale, pop-culture jokes of Jeff Koons and the bloated, faux-cuteness of Fernando Botero.

Born in Paris in 1730, Pajou was blessed with ambition, talent and a genial disposition, three qualities seldom seen in tandem. Something of a prodigy, he responded well to both the rigorous artistic training offered by his master, Jean-Baptiste Lemoyne, and the solid education offered by the Ecole Royale. Pajou's heady student years at the French Academy in Rome are shown in the first gallery, lined with boldly drawn sketches after antiquities and powerful, finished drawings for collectors, all centred on his marble depiction of "Pluto Keeping Cerebus in Chains" and his terracotta bust of Lemoyne.

The "Pluto" was designed to celebrate the sculptor's virtuosity, contrasting the delicacy of the chains and fur of the not-too ferocious three-headed dog with the tense power of Pluto, his cross-legged pose and twisted torso practically pulling the viewer around him. The Lemoyne, a work of warm emotion bespeaking respect and affection between master and pupil, marks a notable beginning, for while Pajou would execute a great variety of tasks in his career, it is in his compelling portrait busts that Pajou is revealed as a sculptor of genius, neatly contradicting the image of *ancien-régime* France as seen in the flattering, rouged visages of Drouais and Nattier.

For better or worse, none of Pajou's images of the royal family are featured, leaving the gallery of marble and terracotta portrait busts peopled mostly by friends and intimates: the hearty landscape painter Hubert Robert; the secretary of state Baron de Breteuil whose shrewdness and sensuality are well attested to by contemporary accounts; the composer and chess champion Philidor; and his frequent collaborator, the poet Sedaine, colleagues and friends sharing a lively wit and intelligence.

But it is Pajou's busts of women that remain exceptional. Whether painted or sculpted, feminine portraiture favours the mask of beauty over an intelligence and strength of character usually dismissed as unseemly for women. Not so with Pajou.

Even in the official marble bust of the royal mistress, Madame du Barry, the sculptor conveys not just her pretty features but also her famous airheaded vacuity and cold cunning – the latter quality also discerned in his bust of the Queen, Elisabeth Vigée-Lebrun. One would not want to mess with Madame Aved, the no-nonsense wart-spotted wife of the painter J. Aved, nor the smooth and wily Mme Sedaine, who outwitted her own mother for her much older husband's affections. One of the most striking is the Met's own Mme De Wailly, the wife of Pajou's architect friend – a sensual lioness in marble, topped by a cascading mane of hair, her nipples pressing firmly against her muslin robe, draped in antique fashion. Most memorable of all, however, is the terracotta of Nathalie de Laborde. The open-hearted 15-year-old girl here depicted by Pajou was destined to suffer the humiliations of both an errant husband and the Terror, was loved and abandoned by Chateaubriand, ultimately losing her mind and dying in an asylum in 1835. With this hindsight, Pajou's portrait haunts your mind and breaks your heart.

Heart-breaking: Pajou's bust of Nathalie de Laborde who, after humiliations in love and the Terror, lost her mind

★

No such feelings are aroused by the Pierre-Paul Prud'hon retrospective, organised by Sylvain Laveissiere of the Louvre and Gary Tinterow of the Met. This is not entirely the artist's fault. Much of his work is either owned by institutions that cannot lend, or is in a deplorably fragile condition due to his frequent practice of mixing bitumen to his paint, leading to an irreversible deterioration of the paint surface. The Met was also impoverished by the absence of some 56 works previously shown in Paris.

Like Pajou, a master of many genres and resident artist to a court (in Prud'hon's case the Empress Josephine's), Prud'hon disdained the hard neo-classicism of his slightly older rival, Jacques-Louis David, in favour of a melting, smoky manner influenced both by Correggio and Leonardo, and the late manner of Fragonard and Greuze.

Unlike Pajou, Prud'hon had a late start and his early portraits are merely competent, his decorations for the Hôtel de Lannoy heavy and stiff. He found his calling with his highly finished black-and-white chalk designs for book illustrations, and despite his later career as a painter of monumental historical and allegorical canvases, he remained essentially an illustrator. He never lost his habit of organising allegorical and mythological canvases in terms of flat, frieze-like compositions. The one exception is his late Crucifixion, painted while the artist was still in deep mourning over the suicide of his mistress Constance Meyer, and in its dramatic pathos is rightly regarded as the most moving treatment of this subject in 19th-century art.

Prud'hon's famous portrait of the Empress Josephine is impressive, but on the whole, his portraits are neither as insightful as David's or as compelling as Girodet's: they are agreeable portraits, and little else.

If Prud'hon's paintings remain forgettable, his talents as draughtsman remain memorable. Seldom has human flesh been rendered so enticingly palpable, with both the female and the male nude treated with an equal degree of sensitivity and sensuality. Prud'hon is matchless in modelling form and reflected light (as seen in the back of the female nude from the Boston Museum, or the taut belly and breast of the male nude from Stuttgart) as his chalk caresses the paper, fingertips gently trail across an expanse of smooth skin. It should be no surprise that the small room that features these masterworks should be the one gallery in the Met's Prud'hon retrospective that is perpetually full of visitors.

Augustin Pajou, Royal Sculptor until May 24; Pierre-Paul Prud'hon until June 7.

BALLET YOUNG DANCERS IN PARIS

Bright hopes for the future

Young dancers on the brink of their careers offer a touching combination of skill and vulnerability. In the school shows of every great troupe – in Petersburg and Paris, New York and London – these youngsters win our hearts, and sometimes a few tears as we see hopes that must inevitably be frustrated. But we also see a physical elite of astonishing beauty, and apprentice performers whose dedication and sweetness of manner is irresistible. Balanchine thought of dancers as almost angelic beings. When we see them as young as this, we feel the truth of his belief.

The annual displays by leading schools are, for the dedicated ballet-goer, the auguries for the future. We speak of "good years and bad years" like wine-buffs. We watch eagerly for the exceptional youngster, whom the gods have already marked. Mme Dudinskaya, a great Petersburg teacher, saw a graduation performance in which Makarova, Sizova, Soloviov – divinities all – danced the *Swan Lake* pas de trois, and truly observed "What burdens God lays on our shoulders!". Such burdens God should lay on every teacher's shoulders.

The Paris Opera Ballet School performance is always eagerly anticipated and eagerly studied. The style is polished, technique is well-founded, and there is that sense of pride in being where they are – on the sacred Garnier boards – which lends lustre to every step. The girls are uniformly bright-footed. The boys, less physically mature than the girls, have admirable carriage, clean, clear technique. They all look like dancers.

The programme this year comprised three items: a suite of choreographies by Jiri Kylian, Balanchine's *Night Shadow*, and Lichine's *Graduation Ball*, which might have been made for just such an occasion.

I have no patience with Kylian's muse. The dances followed the predictable lines of his work, with dowdy peasants having a Bad Time, unspecified mopping directed up-stage, and a nasty outbreak of the anthropomorphic cutes for three excellent boys. I hope this will serve as an inoculation against such nonsenses later in their careers.

Night Shadow is Balanchine at his most romantic. The first notes of Rieti's score plunge us into a night-haunted and uneasy world, where gaiety masks lust, and love – the sudden blind passion between a poet and a sleep-walking beauty – is doomed. It is a potent masterpiece of its genre, and though the school young did very well as guests and divertissement dancers, the main roles were really beyond such inexperienced (albeit gifted) debutants. The exception was Rémy Fichet as the poet, to whose dances he gave a compelling ardour. A young artist to watch.

With Lichine's *Graduation Ball* every step had the sparkle and delicious gaiety of happy young dancers. Johann Strauss, the *backfisch* of a girls' school in Vienna a century ago, young cadets from a military academy, shyness, waltz-steps, infatuation: the combination is irresistible and heart-winning when done with the elan of these students.

Every step had the sparkle of happy young dancers

I salute Florian Magnenet and Romain Schott as the two leading cadets, Caroline Robert (clearly a talent to watch: she took leading roles in all three ballets) and Julie Martel. I was also much taken by Myrian Ould Braham, still in the second division at school, but with a romantic presence ideally suited to the Sylphide divertissement at the ball. I thought her lovely. But all these young people have gifts and the assurance of their fine schooling. They are bright hopes for the future, and they merit the brightest of futures.

Clement Crisp

Made for the occasion: youngsters in 'Graduation Ball' Icare/Moatti

Magisterial music from Maazel

CONCERT

ANDREW CLARK

Bavarian Radio Symphony Orchestra
Barbican Hall, London EC2

One German orchestra playing Beethoven in London may be interesting. Two German orchestras playing Beethoven in London within five days of each other is ridiculous. Unless, that is, one of the orchestras happens to be the Bavarian Radio Symphony Orchestra. In its concert with Lorin Maazel at the Barbican on Thursday, the BRSO set standards that Daniel Barenboim and the Berlin Staatskapelle will find hard to match in their South Bank cycle of symphonies and piano concertos over the next two weeks.

Maazel needed no justification for confining his programme to Beethoven: his orchestra's performances of the Egmont overture, the *Violin Concerto* and *Symphony No.7* spoke for themselves. Elsewhere on their UK tour they included works by other composers – but it cannot have been lost on Maazel that the Berliners' London cycle was in the offing, and the chance to steal their thunder was too good to miss.

On this showing the BRSO is unrecognisable from the time, not so long ago, when Colin Davis was chief conductor. Maazel has turned it into a Mercedes – immaculately calibrated, generously upholstered, with effortless acceleration, but still with a human face on the bonnet. The sound, fattened by quadruple woodwinds, is wholesome in the finest German tradition, and Maazel was intent on showing it off. Every chord and diminuendo was proudly presented. Sometimes the effects were exaggerated, as if Maazel wanted to remind us of his touch-tone control, but the musical argument rarely suffered.

The orchestra's string sonority is massive – the opening chord of Egmont and Maazel's tapering of it demonstrated a majesty that was as arresting as it was exhilarating. That majesty, of a kind not even the London Symphony Orchestra can match, was the touchstone of the whole concert. It yielded vistas of calm in the slow movement of the concerto, gave an opulent clarity to the contrapuntal arguments in the symphony's outer movements, and allowed Maazel to underline the seamlessness of the scherzo.

Only the finale, taken at a speed that would leave even a period ensemble gasping, seemed out of step with Maazel's otherwise easy command of architecture and rhythm. But Maazel can't resist playing to the gallery – as he demonstrated again in his encores, milking Brahms's two most popular Hungarian Dances to the verge of schmaltz. We will forgive him that. As orchestral packages go, the Maazel/BRSO combination is well-nigh unbeatable.

Their 18-year-old American soloist, Hilary Hahn, was a disappointment. She played the Violin Concerto with the eloquent propriety of a head-girl – unfailingly sweet, sometimes very beautiful, but never more than two-dimensional. It would have been fine in Mozart; it was boring in Beethoven.

INTERNATIONAL

Arts Guide

AMSTERDAM

OPERA
Netherlands Opera, Het Muziektheater
Tel: 31-20-551 8911
Tosca: by Puccini. New production by Nikolaus Lehnhoff with a cast including Bryn Terfel. The conductor is Riccardo Chailly; May 6, 8, 10

BASLE

EXHIBITIONS
Kunstmuseum
Tel: 41-61-271 0828
www.kunstmuseumbasel.ch
Andy Warhol: Drawings 1942-1987. Around 230 works by the American pop artist, most of them on loan from the Andy Warhol Museum in Pittsburgh and the Warhol Foundation in New York; from today until Jul 19

BERLIN

DANCE
Deutsche Oper
Tel: 49-30-34384-01
Deutsche Oper Ballet: triple bill of works by Kylián, Bigonzetti and Forsythe; May 8, 9, 10

BRUSSELS

OPERA
La Monnaie
Tel: 32-2-229 1211
Il Ritorno d'Ulisse: by Monteverdi. New production conducted by Philippe Pierlot in a staging by William Kentridge. With the Handspring Puppet Company, at the Lunatheater; May 9, 10

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: conducted by Pierre Boulez in works by Ravel, Ligeti, Messiaen and Roussel. With piano soloist Pierre-Laurent Aimard; May 5

EXHIBITIONS
Art Institute Of Chicago
Tel: 1-312-443 3600
www.artic.edu
Baule: African Art/Western Eyes. First ever major museum show of Baule art. Comprises around 125 works ranging from wooden sculptures and masks to pottery, jewellery, textiles, and crafted domestic tools and furniture; ends on Sunday

DUBLIN

EXHIBITIONS
National Gallery of Ireland
Tel: 353-1-661 5133
The Irish Architectural Archive: 50 works selected from the archive, including designs for houses and churches by architects including James Gandon and Raymond McGrath; ends on Sunday

EDINBURGH

EXHIBITIONS
Scottish National Gallery of Modern Art
Tel: 44-131-624 6200
William MacTaggart (1903-1981): retrospective of the Edinburgh modernist. Includes around 50 paintings, watercolours and drawings, the majority borrowed from private collections and seldom exhibited; ends on Sunday

KORIYAMA

EXHIBITIONS
Koriyama City Museum of Art
Tel: 81-249-56 2200
Aubrey Beardsley: more than 200 drawings, prints, posters and books created during the brief period of the artist's fame. The exhibition marks the centenary of his tragically early death, aged 25, and arrives at the V&A in October, after touring in Japan; ends today

LAUSANNE

OPERA
Opéra de Lausanne, Théâtre Municipal
Tel: 41-21-310 1600
Il Matrimonio segreto: by Cimarosa. Conducted by Jonathan Darlington in a staging by Alain Marcel. Cast includes Alison Hagley; May 5, 8, 10

LISBON

CONCERTS
100 Days Festival, Expo '98
Portuguese Symphony Orchestra: programme of 20th century works; Main Auditorium, Centro Cultural de Belém; May 6

LONDON

CONCERTS
Royal Festival Hall
Tel: 44-171-960 4242
Barenboim Beethoven Cycle: series of six concerts, with Barenboim conducting the nine Symphonies and directing the five Piano Concertos from the keyboard. With the Staatskapelle Berlin, the London Symphony Chorus and soloists tba; May 5, 6, 7

EXHIBITIONS
Hayward Gallery
Tel: 44-171-261 0127
www.hayward-gallery.org.uk
Anish Kapoor: one of a generation of British artists who came to prominence in the 1980s, Kapoor creates sculptures using stone, steel, and mirrored metal. This is the first major showing of his work in a public gallery in Britain, and includes massive new stone pieces; to Jun 14

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
www.lascala.milano.it
Der Freischütz: by Weber. Conducted by Donald Runnicles in a staging by Pier' Alli; May 7, 9

MOSCOW

EXHIBITIONS
Pushkin State Museum of Fine Arts
French Master Drawings from the Pierpoint Morgan Library: 120 drawings, sketchbooks and albums drawn from the library's collections. Highlights include works by Cézanne, Delacroix, Ingres and Poussin; ends on Sunday

MUNICH

CONCERTS
Philharmonie Gasteig
Tel: 49-89-5481 8181
● Berlin Philharmonic Orchestra: conducted by Claudio Abbado in works by Mahler and Larsson; May 5
● Milan Symphony Orchestra: conducted by Alan Francis in works by Mozart, Bruch and Schubert. With pianists Ferhan and Ferzan Onder, and violin soloist Anton Barachowsky; May 7
● Vocalissimo! Gala der Stars: Enoch zu Guttenberg conducts works by Haydn, Mozart and Beethoven. With violin soloist Andreas Rainer; May 6

NEW YORK

CONCERTS
Lincoln Center
Tel: 1-212-721 6500
www.lincolncenter.org
New York Philharmonic: conducted by Leonard Slatkin in chamber music by Devienne, Saint-Saëns and Ravel; Avery Fisher Hall; May 5

PARIS

CONCERTS
Théâtre des Champs Elysées
Tel: 33-1-4952 5050
Orchestre National de France: conducted by Jerzy Semkow in works by Mozart, Wagner and Tchaikovsky. With mezzo-soprano Jard van Nes; May 6

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-864 6000
www.sfsymphony.org
San Francisco Symphony Orchestra: conducted by Peter Maxwell Davies in the world premiere of his own new work, A Reel of Seven Fishermen. The programme is completed by works by Haydn and Shostakovich. With cello soloist Lynn Harrell; May 7, 8, 9

STOCKHOLM

CONCERTS
Königlichen Oper
Tel: 46-8-248 240
Deutsche Oper Orchestra: conducted by Jiri Kout in works by Weber and Dvořák; May 10

OPERA
Königlichen Oper
Tel: 46-8-248 240
Deutsche Oper: Tannhäser, by Wagner. Conducted by Jiri Kout in a staging by Götz Friedrich; May 7, 9

TULSA

EXHIBITIONS
Gilcrease Museum
Thomas Moran (1837-1926): retrospective devoted to the American landscape painter, features 100 oils and watercolours including a selection of the famous Yellowstone pictures; ends on Sunday, then transfers to Seattle

WASHINGTON

EXHIBITIONS
National Gallery of Art
Tel: 1-202-737 4215
www.nga.gov
Mark Rothko: major retrospective of the American abstract artist, including loans from Europe and Japan. The 100 works on display encompass all phases of Rothko's career; to Aug 16, then travelling to New York and Paris

TV AND RADIO

● **WORLD SERVICE**
BBC World Service radio for Europe can be received in western Europe on medium wave 648 kHZ (463m)

EUROPEAN CABLE AND SATELLITE BUSINESS TV

● **CNN International**
Monday to Friday, GMT:
06.30: *Moneyline with Lou Dobbs*
13.30: *Business Asia*
19.30: *World Business Today*
22.00: *World Business Today Update*

● **Business/Market Reports:**
05:07; 06:07; 07:07; 08:20; 09:20; 10:20; 11:20; 11:32; 12:20; 13:20; 14:20.

At 08:20 Tanya Beckett of FTTV reports live from LIFFE as the London market opens.

MARTIN WOLF

Strange love

Or how I have not stopped worrying but learned to love the euro

At least since the French revolution, Europe has been the cradle of visionary politics. European intellectuals and politicians have repeatedly tried to infuse the mundane business of government with some higher aspiration. Today, just one dream remains: Europe itself. The continent's leaders seek a Europe not only of peace and prosperity, but also of renewed power and prestige. That is why they have decided to start economic and monetary union next January.

Given the continent's often terrible history, it is natural to ask whether Europe is pursuing the right goal in the right way. Peace and prosperity across the continent is a noble goal. But will the huge step now being taken promote it, or produce precisely the opposite result?

My own views have evolved in the past 10 years. When I first learned of the intention of the 1988 Hanover summit to set European monetary union in motion, I thought it insanely risky. I still think it risky. But it no longer looks insane.

Whether Emu will lay the foundation of a harmonious and potent Europe remains an open question. But I am now convinced it offers at least two substantial advantages.

First, the currency union will largely eliminate exchange-rate uncertainty from the minds of those responsible for long-term economic decisions. The consequences ought to include enhanced competition, greater specialisation, a more integrated European capital market and therefore higher incomes.

Second, and perhaps more important, the alternatives to a currency union have come to look ever less attractive.

Floating exchange rates have proved disappointing. At one time it seemed possible to hope that inexplicable currency gyrations would disappear once inflation had been eliminated and fiscal policy been placed under secure control. Experience of the 1990s, including sterling's recent giddy climb, has demolished such optimism. For highly integrated European economies currency instability must impose a high price.

An adjustable-peg regime has also proved far from ideal. This is not just because of the instability to which such regimes are prone but, within Europe, it also makes limited sense for the central bank that forms the monetary policy of the fixed-rate area to take the performance of only one economy, Germany, into account. But even Germany generates less than 30 per cent of European Union gross domestic product.

Have I learned to stop worrying and love Emu after all? Only up to a point. When I ask myself why I remain doubtful, the answer remains the enormity of the gamble. The upside is an improvement in EU prosperity and, for some, an enhanced ability to look the Americans in the face. The downside is constant friction over economic policy and, conceivably, a breakdown in the EU itself.

At present, these downside risks seem remote. One of the most important reasons for looking on Emu with a more welcoming eye than a decade ago is the effort made by the 11 participants. Germany's stability culture is far more deeply embedded across Europe than almost anybody had imagined. Just look at the table: who then foresaw a time when every EU member state, except

I once thought Emu was insanely risky. I still think it is risky, but not insane

Greece, would have inflation below 2 per cent? Similarly, Emu may even force countries to embark on long-needed structural reforms, particularly of labour markets.

Here we see a powerful determination to embark on a project with intrinsic economic merits. Surely those that have managed the painful journey to the promised land will not let the difficulties involved in staying there disturb them. In any case, since the price of withdrawal would be enormous, member states are doomed to make the project succeed.

All this is plausible. But it is not enough to calm every one of my fears.

One explanation for my worry is that, in spite of a mountain of books and articles on the subject, the economic and political implications of Emu remain inevitably unknown. This conclusion leaps from the pages of a fascinating special issue on Emu in the journal, Economic Policy.*

Does the stability and growth pact agreed in Amsterdam in June 1997 make sense? Or will it impose a damaging constraint on the ability of member states to smooth country-specific temporary shocks? The authors of one paper argue that the pact is unjustified, but should prove only a minor nuisance. Up pipes someone else insisting the costs will be large and another that the pact is justified.

Can Emu survive without large-scale internal fiscal transfers? One pair of authors argues that the absence of labour mobility and regional wage flexibility within member states has generated irresistible pressure for internal transfers. Since the problem will be still greater across national frontiers, the EU will be under pressure to become a sort of fiscal federation. Yes, responds one discussant, but Europe's political divisions make this unlikely, unnecessary. In any case, says another, because intra-country transfers have not done much to offset asymmetric shocks.

If we do not – and cannot – know how Emu will work, some things we do know:

● Emu is an experiment in running a unified monetary policy, without a common fiscal authority, among a group of sovereign countries – as French demands over the central bank presidency have just reminded everybody.

● The incentives for a country to show good behaviour before Emu are different from those to behave well after it starts.

● Europe's labour markets are catastrophically inflexible.

● Individual Emu countries are likely to go through long periods of recession or overheating, with few instruments to influence the outcome.

Emu is forever. The course of Emu and the European economy may run smoothly, decade after decade. But both initial conditions and history suggest this is most unlikely.

Emu is also a grand vision. The visionaries are Europe's elites, with their desire to transcend the dangers and limits of national politics. Emu will separate central areas of economic policy from national politics. Yet political legitimacy and identity will remain largely national.

The risk then is that conflicts will emerge between the states that remain the focus of political life, on the one hand, and other member states or unaccountable European institutions, on the other. Many argue, for this reason, that there will either emerge a widely spread European consciousness embedded in a Europe-wide political process, or Emu will fail. Both historical precedent and common sense suggest this argument is correct.

I now appreciate the economic case for Emu and admire the bravery of those who are starting it. No one who wants the best for Europe can hope for anything but a triumphant success. Yet I still quail before the risks of this historic gamble.

**David Begg and others (eds), Emu: Prospects and Challenges for the Euro (Oxford: Basil Blackwell, for Centre for Economic Policy Research, 1998)*

Martin.Wolf@FT.com

Are you sure you want to continue?

Richard Wolffe and Louise Kehoe wonder whether the US government will baulk at taking on Microsoft

Bill Gates will this afternoon stage a rally in New York, gathering allies in a last-ditch effort to stave off a looming battle with US antitrust regulators. Superficially, the Microsoft boss's hastily arranged presentation of Windows 98 – the next generation of personal computer operating system software – may look like any other high-tech hoopla in promotion of a new product.

But Microsoft's real purpose is to outmanoeuvre the Justice Department. America's main trust-busting agency is on the brink of reaching a momentous decision: whether to launch a broad antitrust lawsuit against the software giant. The charge would be that Microsoft has maintained a monopoly through exclusionary or predatory practices.

By whetting consumers' appetites for the new version of Windows, Microsoft hopes to have PC users clamouring for the product, making it harder for government lawyers to take legal action that might block or delay shipments to millions of potential customers.

If the government's case does go ahead – and observers believe a decision will come within days – it is likely to prove a watershed event in both antitrust politics and the computer industry.

The case would be the biggest antitrust action in 16 years, since the break-up of AT&T, the telecommunications monolith. It could upset the balance of power that has prevailed in the software industry for the past decade, with Microsoft at the top of the pole. It also threatens to disrupt the product plans of hundreds of computer companies including several of the world's largest such as Compaq Computer, Hewlett-Packard and International Business Machines.

Overall, the case would signal the beginning of a remarkable clash between the US government and the country's fastest growing industrial sector, high technology. While the Justice Department has set its sights on Microsoft, the Federal Trade Commission – which also oversees antitrust matters – is investigating Intel, the Silicon Valley chipmaker that has 90 per cent or more of the world market for microprocessor chips. Although the FTC is still gathering evidence, the early indications are that the agency would like to drag Intel into court.

But the big issue is Microsoft. Trustbusters started investigating the company eight years ago; after a settlement in 1995, they stepped up their actions again last year. Now, after months of depositions and subpoenas, Justice Department lawyers appear confident they have a case strong enough to prove that Microsoft has abused its Windows monopoly to advance its position in related segments of the software market, in violation of antitrust laws.

So far, the Justice Department probe has focused on Microsoft's inclusion in Windows 98 of an internet browser. Microsoft's hold on the operating system market is so strong that it might all but eliminate competition in browsers, which until now have been regarded as a separate product category.

The government has already proved it has the stomach for a fight over this issue. Microsoft has been charged with violating a 1995 antitrust settlement by "bundling" its internet browser with Windows 95. In a court injunction late last year, the Justice Department forced Microsoft to offer an optional "browserless" version of Windows 95 with the internet software hidden from users.

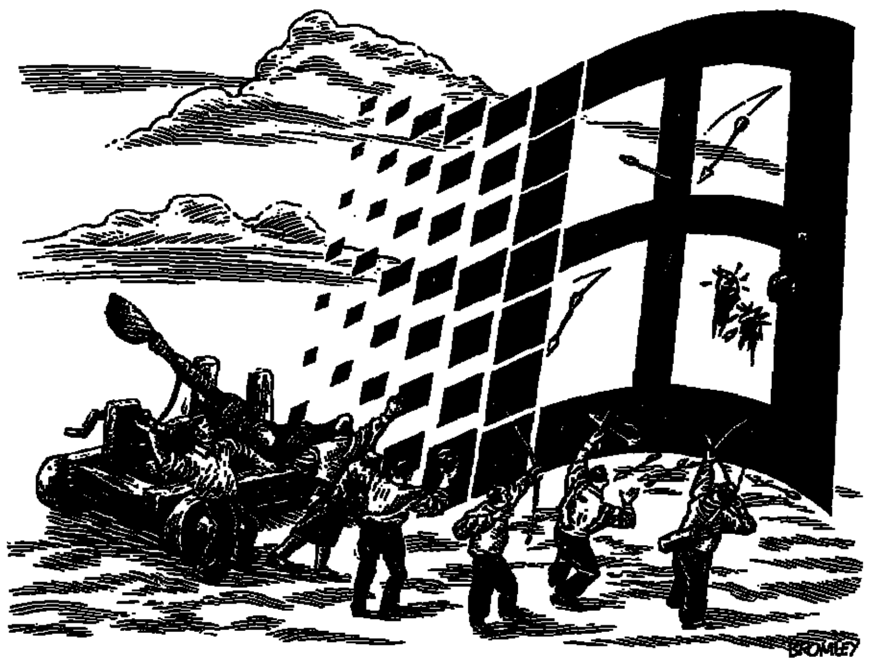
But the victory has proved hollow. Few, if any, PC manufacturers have taken up the option and Microsoft's revenues appear to have been unaffected. Moreover, its argument that the operating system and browser are inseparable seemed to come across more effectively in an appeal hearing last month. A decision in this case is pending.

The Justice Department's next assault could be much wider. It is expected to reach beyond any particular version of Windows to try to establish a pattern of illegal efforts by Microsoft to restrain competition.

The sense of urgency is acute. Filing such a case just after the launch of Windows 98 could be problematic, given the possibility of an adverse public reaction from would-be purchasers.

Microsoft is also raising fears of an end to Wall Street's bull market, which would represent a big threat to public approval of the Clinton administration. It has warned stock market analysts that any delay in the release of Windows 98 could carry "broad negative consequences, not just for Microsoft [one of the world's three largest companies by market capitalisation] but for the entire PC industry".

The sense of urgency in Washington is heightened by the 13 states that have been enthusiastically gathering evidence to launch their own case against Microsoft.



For antitrust lawyers of the laissez faire Reagan era, the scope of the action now being contemplated is unthinkable. Attitudes to antitrust action have shifted substantially in Washington – and not just in the White House.

Among Republicans, the appetite for action is keen. Bob Dole, the former presidential candidate and Senate leader, last month called for government action against Microsoft. He was accompanied by Robert Bork, the former federal judge and one of the leading antitrust thinkers of the free-market Chicago school in the 1970s. Both men have been hired by a coalition of Microsoft critics, including Netscape Communications, its rival in internet browsers.

On Capitol Hill, Orrin Hatch, chairman of the senate judiciary committee, has proved one of Microsoft's most outspoken critics. That may not be surprising. Mr Hatch represents Utah, a state that is home to Novell, a software industry rival whose complaints were instrumental in first drawing government attention to Microsoft's dominance in the early 1990s.

The upshot is that the Clinton administration need not fear a partisan political backlash if it launches antitrust action. As one senior government official said: "This is an unusual political situation because it does not split along partisan lines. There is tremendous interest among conservatives in limiting Microsoft's ability to abuse its monopoly."

At the heart of Washington's antitrust concerns is the fear that today's so-called "monopolists" will extend their domination into future technologies. The so-called "Wintel" dynasty – Microsoft's Windows and Intel's chips – could determine the success of products ranging from electronic commerce to a new generation of digital televisions.

This argument, which springs straight from the pages of papers prepared by Microsoft's industry critics, is theoretical rather than practical. In court, the government must prove past misdeeds rather than future threats.

"A lot of the debate has taken place without a solid understanding of what the antitrust laws do and do not prohibit," says Rick Rule, head of the Justice Department's antitrust division from 1986 to 1989. "The law does not prohibit commercial success when that success is the result of competition on the merits." Mr Rule is working as a consultant to Microsoft.

With legal and political experts in the pay of both sides, the antitrust battle is being fought in the court of public opinion.

A critical issue is whether government meddling in high technology would kill the golden goose. High-tech companies have helped drive US economic growth and set the bulls running on Wall Street. The retirement funds of many Americans are at stake – not an issue that politicians can afford to ignore.

It may also have uphill work persuading people that Microsoft is stifling technological innovation. In practice, Microsoft owns the operating standard but has continued to improve it, too much indeed for some. It is still a challenge for most PC users to keep pace with the latest technological advances.

So if Microsoft's shareholders and most of its customers are happy, why should the government intervene? "Our job is to communicate to the public about the dangers of Microsoft's position," says a senior government adviser.

"What happens next time a young kid goes into a garage with a great idea? If she figures out that no matter how good her idea is, Microsoft is going to come up with a knocked-off version and stick it into the operating system, she will never get started."

The biggest challenge facing the government is to come up with a "remedy" that enhances competition and benefits consumers. The notion of breaking up Microsoft, AT&T style, has already been rejected. Forcing Microsoft to share its intellectual property with competitors sets a dangerous precedent that could stifle research.

In theory, the Justice Department might force Microsoft to submit some future plans to government scrutiny. But no one wants that, including the government and even Microsoft's most vociferous critics.

The danger is that, in attempting to ensure that PC users can choose among competing software, the US government would end up establishing a regulatory regime that crushed progress in information technology. The cure may be worse than the disease.

LETTERS TO THE EDITOR

ECB decision compromises presidency's independence

From Professor Lars Calmfors.

Sir, The basic political motivation for the Emu is that it should help deepen European integration. The turbulence around the nomination of the first president of the European Central Bank ("EU deal puts single currency to the test", May 4) has illustrated very clearly that monetary integration can also give rise to serious conflicts between EU member states. To minimise the damage and to get the ECB started, it may therefore be tempting to accept the compromise. As Wim Duisenberg and Jean-Claude Trichet have similar anti-inflation credentials, the drawbacks might seem small. In my view, this is the wrong conclusion.

The problem is that the decision on a split period of office for the ECB president goes against the very heart of the idea of granting the bank independence from political interference. There are at least three important provisions in the Maastricht Treaty that serve to achieve this aim: the long period of office of the executive board (eight years), the fact that the mandate cannot be renewed, and the prohibition for members of the ECB council to take instructions from governments or other EU institutions. The compromise reached violates all three provisions.

Because no legally binding decision can be taken that Mr Duisenberg should step down after four years, the possibility arises of EU governments accepting that he continues for another four years of office. This amounts to very much the same thing as a renewal of the mandate. And such a possibility could make the ECB president more sensitive to political influences.

The Maastricht Treaty is very clear that members of the ECB executive board are not allowed to take instructions. What can be a more clear violation of this than when the prospective president of the ECB yields to pressure from the EU governments to step down after half his period of office? If the president yields on such a crucial point, the suspicion is likely to arise that the bank could yield on other issues.

The present decision also sets a very dangerous precedent for how any future conflicts over appointments to the executive board of the ECB could be resolved.

There is an ongoing discussion about the need to balance the independence of the ECB against accountability. But circumscribing the independence of the ECB in the way that is implied by the deal on the presidency does not increase the accountability of the bank. Monetary policy should be delegated to the bank in a transparent way and the bank be held accountable for its performance ex post. One should do as much as possible to shield the ECB from continuous political pressures from governments. Indeed, a high degree of accountability could help reduce those risks.

So far, the president of the ECB has only been nominated. The final appointment will come after the European parliament has been heard. As the appointment violates the basic principles behind the Maastricht agreement, the parliament ought to reject Mr Duisenberg's nomination. This may in the short run lead to more turbulence and conflicts. But it would be a clear gain in the long run. And it would earn the parliament a great deal of respect if it stood up for the independence of the ECB.

Lars Calmfors,
professor of international economics,
Institute for International Economic Studies,
Stockholm University,
Stockholm,
Sweden

Tables could be turned for Cambridge

From Mr John-Paul de Soissons.

Sir, Clearly it is hard to construct a university league table without including criteria that are open to attack. However, at least two in your article, "Once glorious Oxford only scrapes a third" (April 29) deserve comment.

The proportion of students awarded first class degrees is irrelevant, since any university can award as many or as few first class degrees as it wishes. Your report shows that Cambridge awarded nearly twice as many as Oxford in 1996.

Is Cambridge debasing the currency? The higher level of research funds raised per academic at Cambridge and Imperial College London compared with Oxford could simply reflect the fact (which I suspect may be true) that the first two have a higher proportion of science academics.

Scientific research is of course more capital-intensive than that into the humanities, and more likely to attract commercial sponsorship. The closeness of the scores implies that leaving out or adjusting these two criteria could have lead to a totally different result, quite possibly with Cambridge not Oxford "only scraping a third".

John-Paul de Soissons,
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23898 Imbersago, Italy

Too great a faith in long run strength of the union

From Mr Simon Rubinsohn.

Sir, While you are right to draw attention to the need for structural reform ("Europe's leap of faith", May 1) to tackle high levels of unemployment on the continent, dismissing the importance of fiscal transfers is short-sighted. Even in successful monetary unions such as the US where the labour market is about as flexible as it can be there is wide variation in regional economic performance, the impact of which is mitigated by budgetary flows.

To believe that a single currency bloc (Emu) with considerably less workforce flexibility can survive in the long run with such a minuscule central budget (just in excess of 1 per cent of gross domestic product) and tight controls on national spending is fanciful.

The risk in these circumstances is that Chancellor Helmut Kohl's brave words: "European ... integration is the most effective insurance against a backslide into chauvinism and war", will be turned on their head.

Simon Rubinsohn,
chief economist,
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The Registry,
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From Mr Konrad Blumenthal.

Sir, Your article "Disheartened Kohl may be punished at the polls by sceptical voters" (May 4) contains a translation error which distorts the meaning of the comment by Hans-Olaf Henkel, head of the Federation of German Industry. In this context, the German word *faul* means rotten and not lazy. *Ein fauler Apfel* is a rotten apple, not a lazy apple, and *Ein fauler Kompromiss* is a rotten compromise – a fitting description of the outcome of the Brussels event and the entire Emu process.

Konrad Blumenthal,
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60596 Franfurt, Germany

Challenges for the UK

From Mr D.A.A. Fagandini.

Sir, The caveats you raise to the Treasury's analysis of the UK's position in the industrial world, and to the chancellor of the exchequer's reaction, are both right and proper ("UK productivity", April 27).

However, the slant you would wish to give to the data is contradicted by your table on page VI in your survey "Reporting Britain" (April 23). The regional prosperity table provides a pertinent, if not poignant, backcloth against which the UK's performance over the long term has to be judged.

When south-east England, including London, lies far below Ile de France, and central Italy is placed just above it, serious thought does need to be given to the real challenges UK industrialists face when deploying the "big share of the profits" you advise should be left with them.

D.A.A. Fagandini,
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An arrogant neglect of rules

From Mr Claus Hönig.

Sir, I refer to your report "EU staff to stop work over review paper" (April 30). A democratically elected European parliament has unanimously called upon the Commission to study the consequences of duty free abolition and to present its results to parliament for reevalation of the issue.

The Commission's response to MEPs has been a simple "No, you may not have such a study". Equally, the same request by the transport ministers council has been rejected. Seldom did Brussels demonstrate more bluntly its arrogant neglect of democratic rules.

To create new jobs to compensate for job losses due to duty free abolition would cost European taxpayers ecu7bn-ecu10bn, even if it were possible to do so given the recession in the labour market. In a normal democratic parliament such potential waste of resources would result in a vote of no confidence against the finance minister. One might speculate whether the commissioner responsible, Mario Monti, will be facing one.

Claus Hönig,
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Those who pay know better

From Mr J.P. Read.

Sir, You state in your leader "Good and bad", (April 29) that globalisation poses an undeniable threat to the tax revenues of states in the developed world and that reforms have minimised tax-induced distortions to trade and investment. Those of us who write out the cheques for taxation know this to be untrue and it cannot be true in the case of the UK where about 25 per cent of gross national product is taken for non-governmental purposes making a total tax burden of the order of 40 per cent.

To add insult to the injury, the vast bulk of this taxation is not levied according to ability to pay but according to the value of various transactions.

For example, costs are inflated by taxes on employment (Pay As You Earn and National Insurance), capital (income tax on interest and dividends) and sales (value added tax) – the latter having the dubious distinction of inflating the cost of all purchases by businesses to which it is applied: not only that, in calculating VAT no deduction is allowed from sales value for the extent to which such value has to be higher to cover the cost of the other taxes!

No wonder the Inland Revenue has to put so many businesses into liquidation, and no wonder the government makes sure it has preference over the other creditors in a liquidation.

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FINANCIAL TIMES

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Tuesday May 5 1998

Aviation alliances

Who should passengers be rooting for in the spat between Washington and Brussels over how to regulate aviation alliances? Charles Hunnicutt, US assistant aviation secretary, has written to Karel Van Miert, the European Union competition commissioner, saying Brussels' proposals for reining in alliances will hurt consumers and push up fares. Mr Van Miert, though, sees himself as the champion of the traveller against the might of the alliances.

Brussels is examining a range of alliances, including the proposed link-up between British Airways and American Airlines and the partnership between United Airlines of the US and Lufthansa of Germany. The US has yet to make up its mind about BA-American, but the United-Lufthansa alliance is already functioning because Washington has given it immunity from the anti-trust laws.

Washington and Brussels differ on two issues. First, Mr Hunnicutt says Mr Van Miert is paying too much attention to individual routes, such as London to Chicago and Frankfurt to New York, and too little to the effect of alliances on the transatlantic market. While airline partners can reduce competition on the few routes on which they both fly, he argues, alliances can have a beneficial effect on competition overall. This is because they use their combined networks to offer flights to many more destinations, thereby increasing competition between alliances.

The second difference is over how regulators should reduce the power of alliances on routes where they *are* too powerful. Washington relies on "carve-outs", which means alliances are denied anti-trust immunity on those routes. Instead of offering uniform fares, they have to provide competing services and prices. Mr Van Miert's remedy is to reduce the number of flights alliance partners are allowed to offer on routes they both serve, thereby encouraging other airlines to set up competing services. Mr Hunnicutt argues this could lower the number of seats available, pushing up prices. It is an important argument because the trend towards concentration in the industry is accelerating. As well as the transatlantic alliances, US airlines, such as United and Delta, have been forming domestic partnerships.

Who is right? Travellers will probably be better served by Mr Hunnicutt's arguments. While Brussels is right to insist on examining the effect of alliances on particular routes, its proposed remedies risk returning the industry to the excessively detailed regulation from which it is trying to escape. How would Brussels decide how many flights or seats each airline should be allowed? What would it do when traffic increased or dropped? It is far better to tell alliance partners they cannot collude on sensitive routes and then take action against them if they do.

UN held hostage

The US Senate voted last week by 51-49 to approve payment of $926m that the US owes to the United Nations. Good news, you might think, for Bill Clinton, the US president, who has condemned the arrears as irresponsible and unworthy of "the leading country in the world". How come, then, that Mr Clinton has promised to veto the bill as soon as it reaches the White House?

The reason is that Congress has included in the bill, which also aims to trim the wings of the State Department, a provision to withhold US taxpayers' money from any organisation that lobbies foreign governments to change their abortion laws.

This provision would not affect the UN, none of whose agencies indulge in such lobbying. It is aimed at non-governmental bodies that currently receive US support, notably the International Planned Parenthood Federation.

The two issues got tangled up in the autumn when anti-abortion campaigners in the House tacked their favourite clause on to a package previously agreed by Senators Jesse Helms and Joseph Biden, the Republican and Democratic leaders on the Senate Foreign Relations committee. At the time Mr Helms was irritated by this attempt to out-flank him on the right. But, after heavy lobbying by anti-abortion activists in his home state of North Carolina, he has come round to the House's view.

Both sides of this argument are playing domestic politics with an important foreign policy issue. The administration maintains that, by using the power of the purse to inhibit family planning groups from lobbying to make abortion easier abroad, it would in effect be infringing their First Amendment right of free expression.

But such lobbying, if it happens at all, is not the main agenda of these groups. Mr Clinton's real concern is to keep faith with one of his core domestic constituencies – the powerful feminist movement – and to cast his Republican opponents as diehard obscurantists.

They in their turn are trying to turn one of his own best arguments against him. Having been repeatedly told that Europeans and other major US allies are being alienated by the US's failure to pay its UN dues, they are now hoping the same allies, and the UN itself, will put pressure on Mr Clinton to sign the bill as passed.

To yield to this tactic may seem humiliating, but Mr Clinton has a chance to show himself more statesmanlike than his opponents. Rather than sacrifice the UN on the altar of political correctness, he should agree to negotiate a compromise formula.

Euro rates

Recent analysis of European economic and monetary union has focused on the long-term implications of the project. There are also short-term consequences, however, of the peculiar interim status of currencies destined to enter Emu in January next year.

The weekend's announcement of the bilateral exchange rates between Emu currencies at the time that conversion to the euro takes place poses a number of complexities. The Maastricht Treaty says that the ecu, an older basket of 12 EU currencies, must convert one-to-one to the euro in January next year. But the ecu contains some currencies, such as sterling, that will not form part of Emu; and it excludes some currencies, such as the Finnish markka, that will join.

The announcement does not tell us the precise rate at which the D-Mark will convert to the euro: but it is meant to tell us the relationship at that moment between the D-Mark and the French franc. The euro conversion rates at the time will be influenced by the value of the currencies that are not making a smooth switch from ecu to euro. The most important of these is sterling. So, by a nice irony, the precise rate at which German citizens will exchange D-Marks for euros will in part depend on the sterling/D-Mark exchange rate at the end of this year.

This sort of complexity will give some scope for financial speculation in the months ahead. So far, the markets have behaved with a calmness few predicted as Emu's starting date draws closer. But if there is turbulence to come in the next few months, it can be tracked in the new Euro Prices page of the Financial Times, published for the first time today. Four pages of today's paper explain the tables in detail.

Many of the new tables have great long-term significance. But from the short-run point of view, the most important table will be the one showing the extent to which market bilateral rates fall into line with those laid down at the weekend. Serious divergence from these rates will indicate a bumpy time between now and the start of Emu. The same table will also monitor the convergence of short-term interest rates towards a common level, to be set from January by the European Central Bank. Sustained large variations between these figures – or worse, a widening gap between them – will be an indicator of problems with the smooth transition for which the EU hopes.

Europe's central bankers are determined to get peacefully from here to there. The chances are good that they will achieve their aim. But if there are problems ahead, the new tables will quickly show them.

The Emu has landed

Gerard Baker on how US support has turned to mild concern as Europe's single currency has become reality

Birth of the euro

For 40 years, as Europe moved step by step towards "ever closer union", the rest of the world, led by the US, has applauded enthusiastically. It has been an article of faith that economic and political integration is good – not only for Europe, but also for the rest of the world.

That may be changing. As 11 members of the European Union this weekend took the biggest stride yet towards closer union (notwithstanding the usual family squabble over who should head the central bank), they did so against a background of international nervousness.

Much concern focuses on how the US will react. The critical question is how the euro will affect economic and political relationships across the Atlantic. No country has had a bigger strategic interest in the European project than the US. But the arrival of economic and monetary union poses a greater challenge to American economic and diplomatic orthodoxy than any previous stage of Euro-integration. Highly influential Americans are having second thoughts.

The official US position, since the Maastricht treaty was signed in 1991, has been to offer polite support for Emu. Bill Clinton, the US president, has said: "An integrated Europe is America's natural best partner for the 21st century."

But behind the diplomatic niceties has been a quiet scepticism, a caution that stems from a complex mix of doubts that threatens to shatter the longstanding US orthodoxy about Europe.

Until not much more than a year ago, even those members of the policy establishment most engaged in international affairs privately doubted whether monetary union would ever take place. As the project has moved from probability to reality, the official US view has become more supportive. But even as the member countries have been hatching Emu in the past few months, the words of welcome from US officials have been larded with conditionals.

"If Emu is good for Europe it will be good for us" is the mantra repeated by Lawrence Summers, the deputy US Treasury secretary, and the administration's most important thinker on Emu.

"Bland efforts to say nothing leave an impression that the US is uneasy," wrote G. Jonathan Greenwald, a former senior US diplomat in Brussels.

A blunter assessment was last week's observation by Newt Gingrich that Britain should leave the EU and join the North American Free Trade Agreement. The fact that a speaker of the House of Representatives should air such an idea reveals the depth of US doubts.

Even the most ardent proponents of the project do not dispute that it is by far the most risky step taken towards European integration. Hence it is hardly surprising that there is a difference between the current ambiguity and cordial US support for previous steps – especially the expansion of the original six members to 15 and the creation of a single market.

For European enthusiasts, however, the changed US attitude reflects two deeper concerns, both raised by the threat to the US of a successful Emu. First, the arrival of the euro is the first serious challenge to the global hegemony of the dollar since the 1930s. "The euro will be to the dollar what Airbus is to Boeing," said Norbert Walter, chief economist at Deutsche Bank, last week.

If the euro were to challenge the dollar, that would not be something the US could afford to take lightly. The US gains much from printing the world's reserve currency. Seignorage – the revenue that accrues to the federal government from the ubiquity of hundreds of billions of dollars in banknotes – is one benefit. More important, the primacy of the dollar means the US has no trouble financing its huge external needs – a $160bn current account deficit – in its own currency, inoculating debt service costs against currency volatility.

Second, Emu optimists believe, the US is nervous about the efficiencies they expect monetary union to bring the European economy. These, they think, will turn the euro zone into a forceful global competitor.

It is true there is some concern in Washington about the implications of Emu for US dominance of the global financial system. But it is hard to find many US policymakers who regard the threat as anything other than very distant. Mr Summers has repeatedly pointed out that it took many years of US economic strength before the dollar achieved its supremacy. A global reserve currency, he has argued, is not simply legislated into existence. He reckons it will take years before the euro builds enough credibility to become a serious threat.

Few in the US administration worry that any long-term economic gains Europe makes will damage the US. A vibrant and integrated European market poses more opportunities than dangers for US companies. On this, at any rate, it seems reasonable to take US officials at their word. "It is not the success of Emu that worries us, but the possibility that it will be somewhat less than successful," says one.

'The euro will be to the dollar what Airbus is to Boeing'

What are the dangers, then, for the US and the rest of the world of an unsuccessful Emu? The main one is economic. The concern (widespread among economists) is that monetary union will be subject to immense strains if the necessary structural changes are not made. Though US officials are anxious to stress they believe the Emu countries will reform, there is concern they may not.

Specifically, the US believes urgent action is needed to make labour markets more flexible to compensate for the lack of exchange rate flexibility by individual countries. It is also widely felt that the absence of a common fiscal policy could make regional disparities much worse.

"Reforms are needed in Europe," says Janet Yellen, chair of Mr Clinton's Council of Economic Advisers. "Rigidities in labour markets will be a problem in a world where you have a common currency and countries have given up any flexibility . . . in monetary policy."

Some observers attribute this line of criticism, with some justification, to the vogue for US economic triumphalism. The remarkably good performance of the US economy in the past few years – solid growth with no inflation – is hailed by even cautious US policymakers as a vindication of the distinctive American model: flexible labour markets, small government, a weak welfare net, dynamic capital markets and deregulated markets. Europe, by contrast, mostly stagnant for the past five years, is viewed by Americans as a model of economic failure and antediluvian rigidities.

According to this view, Emu not only fails to answer Europe's problems, but acts as a dangerous distraction. "It's like seeing a good friend who has a heart condition insist on going to see a dentist to get his problems fixed," says one official. "In the meantime the heart condition gets ever more life-threatening."

This line is reinforced by the spectacle of the UK standing aside from the Emu project. There is a consensus in Washington that Britain has enjoyed 20 years of economic transformation at least in part because it has endorsed the US entrepreneurial model and turned its back on the continental European social market approach.

Some of these views smack of hubris. But many Americans genuinely worry that an Emu built on unreformed economies would produce persistent unemployment and sluggish growth. That in turn would mean the euro would be a weak currency against the dollar, undermining the competitiveness of US companies in world markets.

In short, the risk is that Europe under Emu could become another Japan, exporting its way to growth, while ignoring its underlying structural problems. But in Japan, these structural faults have built up to a such point that they could pose serious problems for Asia and the rest of the world.

European governments reject this parallel. They insist their currency will remain strong, underpinned by sound monetary policies. Just as important, Emu will promote structural reforms.

For the time being, the world accepts European promises on good faith. But the arguments between France and the rest about who should be president of the European Central Bank have tested this assumption; if Europe breaks its promises and the ECB falls under the spell of politicians, there will be trouble.

So much for Emu's possible economic effects. There is a separate debate taking shape in the US about its likely political consequences. As more Americans have woken up to the project, many have come to the conclusion that Emu will be bad news for the US.

Part of this concern is a familiar hostility among some US conservatives to the EU, which they have always regarded as an unreliable partner. But the imminent arrival of the euro has broadened the base of those expressing doubts. The most forthright contribution so far was that of Martin Feldstein, one of the country's most respected economists and chairman of former President Ronald Reagan's Council of Economic Advisers. Mr Feldstein argued last November, in an article in Foreign Affairs, that Emu represented a step too far for European integration; that the economic strains it would produce in Europe would lead to serious political unrest – even war.

"If Emu does come into existence, it will change the political character of Europe in ways that could lead to conflicts in Europe and confrontations with the United States," he wrote.

Though these views are not widely shared, there is a growing belief that Emu represents a watershed for transatlantic relations. As with the economists, the foreign policymakers generally believe that, if Emu works well, the gains from closer integration will suit the rest of the world too. But the unspoken fear is that, if it does not succeed, the stakes will have been raised considerably higher.

OBSERVER

The quick brown Fox

Rupert Murdoch didn't turn up to the gala opening of Fox Studios in Sydney, but the black-tie event marked another triumph for his deal-making abilities. Construction of the sprawling studio complex on Sydney's historic showground in Moore Park has for years drawn fierce opposition.

First the critics questioned lucrative concessions from the state government and related groups, including free rent for a couple of years. A 1995 official inquiry into corruption or conduct "conducive to corruption" cleared all parties of wrongdoing. But the A$250m project then faced the wrath of local residents, who made an unsuccessful bid through the courts to stop Fox developing the site. Australian film industry leaders, meanwhile, said the studios would damage local industry and turn the country into a "service centre for big Hollywood interests".

Needless to say, Murdoch prevailed. But he left son Lachlan to play host at the lavish opening bash and it was Bill Mechanic, chief executive of Fox Group in the US, who told 1,200 guests that the studios were "indisputably the best in the world, better than Hollywood, better than London".

The hyperbole didn't impress one obstreperous gatecrasher, a woman clad in a top emblazoned with "Maritime Union of Australia", the dockers' union at the centre of the country's bitter waterfront dispute. Before security guards dragged her away, she screamed at the assembled glitterati: "Do you believe this is our country?" Back to the champagne.

Hey, good lookin'

The Gillette executives responsible for last month's launch of the company's new three-pronged razor can relax. The device, dubbed "revolutionary" by the company, has won a razor-sharp fan in Warren Buffett.

The Sage of Omaha, who owns 8.6 per cent of Gillette, says he's been using the new design since November and is delighted with its performance. While signing autographs in the run up to yesterday's Berkshire Hathaway shareholders' meeting, Buffett said it was "a great razor". To prove the point he held both hands to super-smooth cheeks and exclaimed: "Just look at that face!"

Top banana

Older Greek tycoons are treating Victor Restis, the thirty-something who runs Piraeus-based Enterprises Shipholding, with a bit more respect these days.

Enterprises, which operates one of the world's biggest fleets of refrigerated vessels – it carries lots of bananas around – has pulled off Greece's most successful junk bond issue to date. The $175m issue was sold at par, with a coupon of less than 9 per cent, and the company got a better corporate rating from Standard & Poors than previous Greek issuers.

With international safety regulations being tightened, Greek shipping companies are hungry for cash to modernise their fleets. But shipping tycoons are a notoriously prickly lot. Most would rather borrow smaller amounts from discreet banks than risk the humiliation of being awarded a lowly single B or even a C plus credit rating – and having to settle for a yield in double digits.

Maybe once they've got their heads round Restis's double-B rating, the old guard might sail in the international bond market rather than sticking to home waters.

Acid test

Central bank governors are supposed to be tough. But Chatumongkol Sonakul, nominated yesterday to be Thailand's fourth central bank governor in less than two years, is downright acerbic.

Former colleagues at the ministry of finance recall being compared to water buffaloes – the Thai equivalent of being labelled a jackass – if they didn't match his intellectual standards. Last year, the Oxford- and Harvard-educated member of Thailand's royal family told assembled journalists that they were no better than prostitutes, doing other people's dirty work.

Mind you, knocking Thailand's central bank into shape isn't going to be easy after all the recent turmoil. Chatumongkol may find he has to do a fair amount of dirty work himself.

Swiss role

The Pope should sleep soundly tonight. After a long delay, the 100-strong Swiss Guard which protects the pontiff has finally found a new commander. The appointment of 44-year-old Swiss army colonel Alois Estermann should scotch rumours that the Vatican would have to start shopping around for mercenaries because the Swiss had priced themselves out of the market.

Switzerland's role in defending the Pope dates back to 1527 when 147 Swiss guards died protecting Pope Clement VII against the French. Since then the pike-carrying Swiss Guard, in their Michelangelo-style uniforms, have become one of the Vatican's most-photographed attractions.

But life in the Vatican barracks doesn't have the cachet of old. The commander of the Swiss Guard should be a senior Swiss army officer, preferably of noble birth, and willing to live on a hardly generous salary of around SFr40,000 a year. Though the Swiss authorities are understood to have offered to top up the salary by a factor of three, no aristocratic Swiss Catholics came forward.

Estermann, until now deputy commander, was the obvious choice. He's not an aristocrat, but beggars can't be choosers.

The Financial Times

100 years ago

Shooting In Madrid Streets
Paris, 4th May. "The New York Herald" (Paris edition) publishes the following item from its Gibraltar Correspondent today:- "Advices received here from an official source state that the situation in Madrid is exceedingly serious. Not only is the town in a state of siege, but rioting is going on, and gun shots have been fired in the streets. The Carlists are extraordinarily active, and are writing and distributing everywhere circulars inciting to revolution."

50 years ago

Television In The U.S.
Television is probably the fastest-growing industry in the U.S. to-day. At the end of the war there were about 10,000 receiving sets in the U.S. An estimated 300,000 sets are now in the hands of the public. Manufacturers predict that by the end of 1949 there will be 200 stations in 75 cities broadcasting to 2,000,000 sets. In 1946 only eight stations were broadcasting television. The number is now 23. Twenty-nine manufacturers, large and small, are now making television sets. A year ago there were about 40 advertisers using television. The number is now 200.

FINANCIAL TIMES
TUESDAY MAY 5 1998

THE LEX COLUMN

Emu flies

And so, after all the sound and fury of the weekend euro summit – nothing. The currency markets have rightly concluded that the people chosen to manage the euro are tough-minded central bankers, however farcical the horse-trading that led to their appointments. If anything, the new euro bankers may seek to demonstrate their independence via an early rise in interest rates.

Meanwhile, the great European bull market is charging ahead relentlessly, in part on the theory that the single currency will pep up performance. Viewed from Europe, that would be a virtually unmitigated blessing. US attitudes are more ambivalent.

Most international US businesses see euroland both as an attractive marketplace for their products and a promising hunting ground for acquisitions. Given their size and experience in dealing with an integrated, competitive home market, many feel they have an edge over continental rivals still thinking in national terms. The aggressive European expansion of Wall Street's investment banks shows this thinking at work.

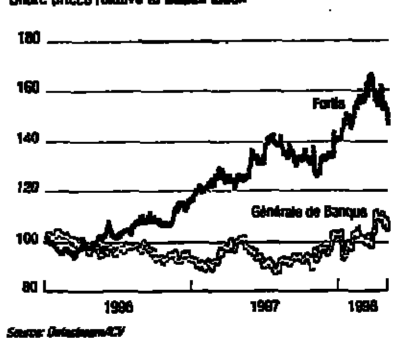
US fund managers similarly hold out hopes of domination – and not just based on size. Their credit analysis skills will give them an advantage as Europe's corporate and high-yield bond markets take off. And in equities, their familiarity with takeovers and corporate governance should prove valuable.

But every opportunity carries a threat within it. A successful euro will challenge the dollar's reserve currency status. A more powerful Europe will eventually start to throw its political weight around. And corporate restructuring could create industrial and financial giants to rival those produced by the US merger boom. Americans will be wishing the euro success, but perhaps not too much of it.

Fortis/Générale de Banque

It is not surprising that Générale de Banque's management is showing some recalcitrance as Fortis, the Belgo-Dutch financial services group, bears down on it. Not so long ago it harboured ambitions to form a Grande Banque Belge with Banque Bruxelles Lambert – that was scuppered by an ING takeover. Then its international ambitions were clipped when it withdrew from the bidding for the French bank CIC. Its biggest shareholder, Société Générale de Belgique, sees more value in a cost-saving domestic merger – notably with Fortis, in which it also has a stake.

Fortis/Générale de Banque
Share prices relative to BEL20 index



Source: Datastream/ICV

So what is Générale de Banque holding out for? *It would be nice to think it was the highest price for its shareholders, even though they will not all share the same priorities. SGB, for instance, would* probably be content to take Fortis paper on undemanding terms for the bidder. It sees the upside coming later via a stake in the merged group. But the concern must be that Générale de Banque's directors want to keep autonomy for its own sake, guarding their jobs. Fortis, with its superior performance, should be careful about making concessions on this front. To make the most of a merger, it needs to be able to impose itself.

PowerGen/Houston

PowerGen's Ed Wallis seems obsessed with size. Not for the first time, the chairman of the British generator is on the prowl. His planned acquisition of Midlands Electricity was blocked by the UK competition authorities, while talks with Cinergy of the US fizzled. This time, a no-premium all-share merger with Houston Industries, also of the US, is in his sights.

A merger of equals at least means money would not be wasted on buying control. That is good because, as with other transatlantic energy deals, it is hard to see where value would be created. There is certainly little scope for cost-cutting. The best that can be said is that PowerGen could teach Houston a thing or two about deregulation, while the Texan company's experience in retail distribution could come in handy as the two pursued opportunities in third markets. Set against such thin pickings, there would be risks – not least a possible power struggle and the tricky question of whether a merged group could maintain its position in blue-chip indices on both sides of the Atlantic. With luck, PowerGen will walk away from the talks if these issues cannot be resolved.

There is always the chance that another name – say PacifiCorp, which was disappointed in last week's auction for Britain's Energy Group – may enter the fray. But given that the smaller Energy Group was a financial stretch for PacifiCorp, investors should not hold their breath.

Dana/Echlin

Dana makes parts for the insides of engines; Echlin makes bits that go on the *outside. So Dana's $3.6bn bid for Echlin,* another instance of car parts consolidation, looks sensible enough.

There is a twist to this one, *however.* Dana is riding to the rescue of Echlin, which has been fighting a hostile $3bn bid from SPX. The interesting part is that though Dana expects cost savings and benefits of only $200m by 2000, against the $300m projected by SPX, it is prepared to offer nearly a fifth more for Echlin. Part of that may be justifiable; Echlin fulfils Dana's long-standing ambition to get big in automotive spare parts – a higher margin, less cyclical business than supplying the big car makers directly. And it is questionable whether SPX, which is much smaller and not even in car parts – it makes tools and testing equipment for the motor industry – could really extract all the promised savings.

That makes this an easy choice for Echlin's shareholders. But Dana's might like to ask whether Echlin, a poor performer in recent years, is worth over 20 times estimated 1998 earnings. And gutsy little SPX deserves some credit for breaching Echlin's takeover defences in the first place.

Computer bomb alert as Dow nears 10,000 mark

Software could fail to cope with five-digit figure, says IT consultant

By Paul Taylor in London

Computers at banks and other financial services companies could be disrupted if the Dow Jones Industrial Average tops 10,000, warn *industry analysts.*

Much of the computer software written for financial organisations that trade and track the US blue-chip index can deal only with four-digit Dow figures. It was not designed to cope with the extended bull market rally on Wall Street or the growth of computerised trading, said Gartner group, the computer consultants.

Many banks and financial services companies are already struggling to cope with the Year 2000 problem, which threatens to disrupt computers at the end of next year because they will not recognise the date.

When the Dow moves into five digits, some systems will misinterpret *the 10,000 figure.*

The Dow took 15 years to move from 1,000 to 2,000 and closed above 9,000 for the first time on April 6 this year. The index yesterday reached *9,212 in early trading.*

"Trading organisations face potential massive exposure if the DJIA *passes 10,000 and their systems* interpret it as 1,000 or 0,000," says Andy Kyte, the Gartner Group consultant who has highlighted the new risk.

"Computer-based trading systems could interpret the 10,000 event as a catastrophic crash," said Mr Kyte. This could prompt computers to launch programs that would automatically sell their portfolios or make mistakes on their calculations.

"This is a real and present threat," he said.

There was little evidence that software developers inside financial institutions had even begun to assess the risk, Mr Kyte said.

"Application development teams in financial services organisations already face tremendous pressure," he said.

"*They have to deal* with the looming year 2000, many are grappling with the euro, and decimalisation of securities' prices is just over the horizon. At the same time trading *floors are demanding faster systems,* new data feeds and analysis tools."

Mr Kyte said one large multinational bank has had to divert IT staff away from millennium compliance work because of the new problem. However, according to ZDNews, the web-based IT news services, most banks are either unaware of the problem, or unwilling to comment on it.

Mr Kyte said that although the year 2000 problem was an immovable deadline, at least there had been clear warning and a schedule to deal with it.

"Nobody knows when the Dow Jones Industrial Average will hit 10,000; however, one thing is clear, many IT systems cannot take the average beyond 10,000," he said.

He advised banks and other organisations that use stock exchange data to set up a crisis management team immediately to identify whether they were vulnerable to the DJIA 10,000 problem.

"Teams should behave as though the barrier could be breached tomorrow," said Mr Kyte.

Big price hikes in Indonesia raise risk of further unrest

By Sander Thoenes in Jakarta

President Suharto risked another bout of public unrest by sharply raising fuel, transport and electricity prices yesterday as part of Indonesia's reform pledges to the International Monetary Fund.

The price rises coincided with continuing student protests and the strongest warning so far from the army of reprisals against demonstrators.

General Wiranto, the powerful defence minister and chief of the armed forces, ordered his commanders to take "stern action" if students moved their protests off campus.

"There is proof that if students go out of the campus, the protests become uncontrollable," he said.

The price rises were announced as the IMF prepared to approve a further $3bn loan tranche to Indonesia, to be disbursed in monthly instalments of $1bn each.

This will end a six-week delay after Indonesia's failure to implement reforms earlier. It also opens the way for the release of billions of dollars of short-term help from the World Bank, Asian Development Bank and bilateral donors.

The price rises are likely to add force to the students' campaign, whose slogan has been: "Down with prices, down with Suharto."

Thousands of cars lined up at petrol stations, clogging Jakarta's centre, minutes after officials announced the increases.

Petrol prices were to rise by 71 per cent at midnight, diesel by 58 per cent, and paraffin, used by the poor in stoves and lamps, by 25 per cent. Electricity rates will be increased by 20 per cent on average later this month.

The rises will help reduce the burden on the budget of fuel subsidies, estimated at Rp1,200bn ($152m) a month and due to be phased out under the agreement with the IMF.

Train fares almost doubled as of today and bus fares rose by two-thirds, outweighing efforts to limit the impact of fuel price rises for the poor.

At Rp1,200 a litre, petrol is still well below world prices, but drivers of bicycle, scooter and motor taxis said the rise would wipe out two-thirds or more of their earnings.

Many buses have already ceased operations, unable to afford spare parts, which are mostly imported. Hundreds of cab drivers have returned their cars because most customers had switched to buses and trains to economise.

Syahrir, a prominent economist, estimated the increases would boost annual inflation by up to 3 per cent, but that excluded the indirect impact on other goods, which he expected to be stronger.

The last round of big price rises sparked riots.

The expected release of the IMF credit failed to boost the rupiah or the stock market yesterday, as investors worried about the effect of the price rises on political stability.

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Richard Holbrooke, US special envoy to Cyprus, said peace moves had reached a 'temporary but serious impasse'. Report, Page 4 — Reuters

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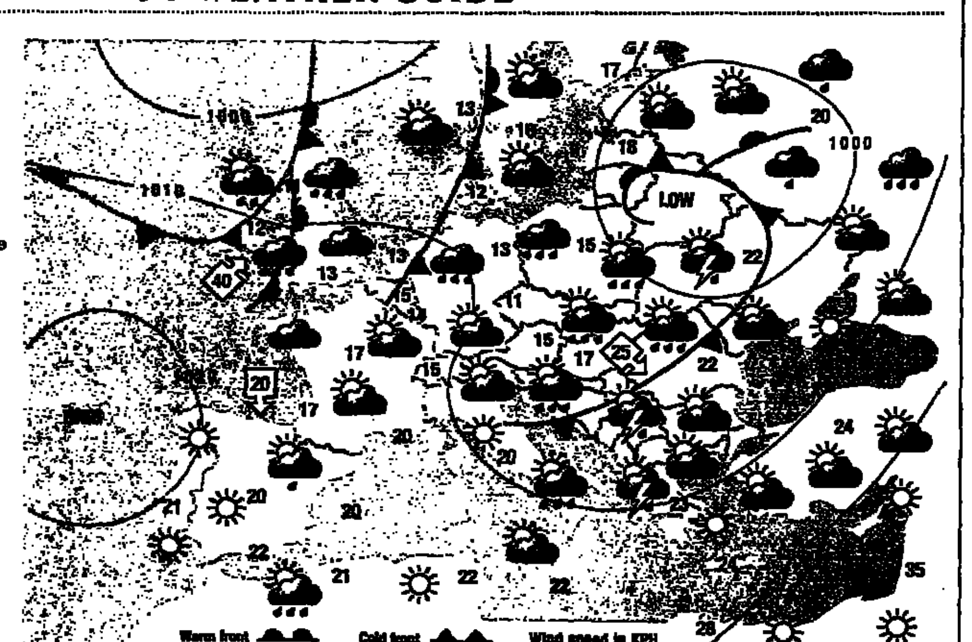
FT WEATHER GUIDE

Europe today

Northern and eastern Scandinavia will be mainly fine with sunny spells, but southern and western areas of Norway and Denmark will be unsettled with showers. The Baltic countries and western Russia will be wet. Further south from Poland through to Albania will have a mix of sunshine and thundery showers. Much of western and central Europe will be dry with sunny periods. The Mediterranean will be largely dry and sunny, but some heavy showers will breakout over the Adriatic coast of south-eastern Italy.

Five-day forecast

Scandinavia will become unsettled by midweek. High pressure will build over the west Mediterranean and this will ridge across much of western and central Europe bringing a lot of fine and mainly *sunny weather for the rest of the* week. The east Mediterranean will become unsettled with thunder.



Situation at midday. Temperatures maximum for day. Forecasts by PA WEATHERCENTRE

TODAY'S TEMPERATURES

		Maximum Celsius
Abu Dhabi	Cloudy	34
Accra	Thunder	33
Algiers	Fair	21
Amsterdam	Rain	13
Athens	Sun	25
Atlanta	Fair	27
B. Aires	Fair	20
B.ham	Shower	12
Bangkok	Thunder	37
Barcelona	Fair	21
Beijing	Fair	29
Belfast	Shower	11
Belgrade	Thunder	16
Berlin	Fair	13
Bermuda	Fair	26
Bogota	Rain	20
Bombay	Fair	34
Brussels	Shower	14
Budapest	Shower	17
C.hagen	Shower	12
Cairo	Sun	39
Caracas	Cloudy	31
Cardiff	Shower	12
Casablanca	Fair	20
Chicago	Shower	23
Cologne	Fair	15
Dakar	Sun	25
Dallas	Fair	31
Delhi	Fair	33
Dubai	Sun	38
Dublin	Shower	12
Dubrovnik	Shower	18
Edinburgh	Shower	12
Faro	Sun	22
Frankfurt	Fair	16
Geneva	Fair	15
Gibraltar	Fair	22
Glasgow	Rain	11
Hamburg	Shower	12
Helsinki	Shower	17
Hong Kong	Rain	27
Honolulu	Cloudy	30
Istanbul	Sun	26
Jakarta	Fair	33
Jersey	Cloudy	12
Johannesburg	Fair	25
Karachi	Sun	34
Kuwait	Sun	38
L. Angeles	Shower	27
Las Palmas	Cloudy	23
Lima	Fair	26
Lisbon	Sun	21
London	Cloudy	13
Luxbourg	Cloudy	14
Lyon	Fair	16
Madeira	Cloudy	18
Madrid	Sunny	20
Majorca	Cloudy	20
Malta	Sun	23
Manchester	Rain	12
Manila	Shower	33
Melbourne	Shower	17
Mexico City	Fair	29
Miami	Fair	31
Milan	Sun	23
Montreal	Rain	20
Moscow	Rain	20
Munich	Shower	13
Nairobi	Fair	26
Naples	Shower	19
Nassau	Shower	29
New York	Cloudy	19
Nice	Fair	20
Nicosia	Sun	30
Oslo	Thunder	13
Paris	Fair	17
Perth	Fair	24
Prague	Fair	11
Rangoon	Thunder	32
Reykjavik	Fair	6
Rio	Rain	22
Rome	Shower	19
S. Frsco	Cloudy	19
Seoul	Sun	26
Singapore	Shower	34
Stockholm	Fair	16
Strasbourg	Fair	16
Sydney	Shower	20
Tangier	Fair	21
Tel Aviv	Sun	35
Tokyo	Fair	21
Toronto	Drzzl	20
Vancouver	Fair	22
Venice	Sun	21
Vienna	Shower	15
Warsaw	Rain	15
Washington	Shower	24
Wellington	Fair	15
Winnipeg	Cloudy	17
Zurich	Fair	

FINANCIAL TIMES
COMPANIES & MARKETS
© THE FINANCIAL TIMES LIMITED 1998 TUESDAY MAY 5 1998 Week 19

INSIDE

Wall Street pushes Euro bourses up
European shares sped ahead. They were spurred on not by Euro summit relief, but by a strong Dow Jones, up more than 300 points between the close of trading last Wednesday and the end of European trading yesterday. Record highs were achieved in some peripheral centres. Page 46

Mexican rock promoter heads south

Last month Alejandro Soberón's Corporación Interamericana de Entretenimiento company helped take The Rolling Stones, fronted by Mick Jagger (left), to Brazil, where concerts had been notoriously shambolic. Analysts say CIE is joining the "big league" of Mexican groups that are reaching into South America in the search for fresh markets. Last Friday CIE launched a share issue to help finance this expansion. Page 26

Seoul falls 3.6% after rioting
South Korea's Kospi index ended down 3.6 per cent after civil unrest and fears over the heavy stream of share offerings due over the next few months damaged sentiment. Seoul's bourse retreated 14.73 to 391.80 after last week's unemployment data, which hit a 12-year high, caused a weekend of rioting. Page 46

African oil finds to pose problems
Recent oil discoveries off west Africa have confirmed the region's potential as a leading oil-producing area. Three finds off Angola accounted for 94 per cent of the reserves found last year, according to a report by Wood Mackenzie, the Edinburgh-based consultants. But exploiting the finds will pose real technical challenges. Page 32

Hongkong Telecom advances 11.6%
Hongkong Telecom, the territory's dominant carrier, posted an 11.6 per cent rise in net profits to HK$12.47bn (US$1.6bn) before exceptional items for the year to March 31. This was in line with expectations, but the company surprised analysts by taking a HK$2bn charge against write-offs of obsolete equipment. Page 29

Commerzbank doubtful on Euro links
Speculation of a round of European bank mergers has abounded since the wave of mega-mergers on the US banking scene. But not all are convinced this will happen. Martin Kohlhaussen, chairman of Commerzbank of Germany, said the US scene was not a blueprint for Europe. Page 24

Corporate Canada fills issuance gap
Canadian investors are facing a shortage of government bonds. Most of the provinces have put their fiscal houses in order. Thus, for the first time since the early 1970s, the net issuance of all new Canadian government bonds will be near zero, meaning almost no real rise in government debt coming to the markets. Page 38

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MARKET STATISTICS

PARTS SHORTAGE IS BLAMED AS LOSS-MAKING SWEDISH GROUP FALLS VICTIM TO DANISH STRIKE

Saab forced to halt car output

By Tim Burt in Stockholm

Saab, the loss-making Swedish automotive group, yesterday halted car production after running out of essential components from strike-bound Danish plants.

The company, 50 per cent owned by General Motors of the US, became the latest corporate victim of Denmark's week-old national strike after exhausting supplies of engine mountings made by Metallic, the Danish engineering group.

Assembly of Saab's 95 and 93 saloons was halted last night, and its press, body panel and paint shops were to shut down later today.

Senior officials described the shutdown as a serious blow for Saab, which hoped to return to profit later this year following almost a decade of successive losses. "It is very bad news. This is the year we were supposed to turn round and show a profit in the fourth quarter," said Olle Axelson, Saab's head of information.

Since 1989, when GM acquired its stake in Saab from Investor, the main investment vehicle of Sweden's Wallenberg business empire, the car maker has accumulated losses of SKr12bn ($1.5bn).

Saab yesterday declined to estimate the financial impact of the shutdown, but industry analysts put the cost at more than SKr130m a day.

The production shutdown, affecting 3,500 car workers at Saab's main Trollhättan plant in southern Sweden, is expected to lead to the closure of its engine plant in Södertälje near Stockholm and its Gothenburg transmissions factory.

Assembly of Saab's convertible models in Finland will also cease once current engine stocks are used up.

In all, some 4,250 employees will be forced to stop work and Saab warned that many could be laid off by the end of this week.

In Denmark, meanwhile, union leaders and employers said they had failed to resolve differences over the terms of a new two-year wage deal and warned the strike could drag on for several days.

Volvo, Saab's main Swedish rival, yesterday said production schedules at some of its plants in Sweden and the Netherlands could be adversely affected by the Danish strike, although it did not expect to halt assembly of any models.

Saab also warned that many of its component suppliers would suffer following its decision to halt production.

Some industry analysts said a prolonged stoppage and mounting costs could affect the possible timing of the put and call arrangement between GM and Investor, which has the right to sell all or part of its remaining 50 per cent stake in Saab to GM next year.

Pressure mounts on Générale to link up with Fortis

By Neil Buckley in Brussels

Pressure was mounting last night on Générale de Banque, Belgium's biggest bank, to agree to a merger with Fortis after its biggest shareholder made clear it wanted to sell its stake to the Belgo-Dutch financial group.

A statement confirming the dominant shareholder's intention came after a Générale de Banque board meeting revealed continuing splits over the merits of a merger.

The bank's management has concerns about the proposals, which would create a bancassurance giant that would be one of Europe's top 10 banks.

Société Générale de Belgique, which has a 29.7 per cent stake, and other main shareholders Mutuelle Solvay (3 per cent) and Union Financière Boël (0.5 per cent), had the "expressed intention" of handing over their stakes in a share swap with Fortis, the statement said. It added that all 28 board members agreed the move would not affect the bank's "financial strength".

But while nine directors representing the main shareholders said it would not affect the bank's autonomy, eight more – the bank's management committee – said that it would "affect the bank's operating stability and autonomy".

Eleven independent directors said the Fortis project was "worthy of further consideration", but they had insufficient information. They concluded it would be "premature" to decide yesterday whether the merger would "guarantee the harmonious, autonomous and stable development" of the bank.

Since the sale of the main shareholders' combined 33.2 per cent stake in Générale de Banque to Fortis would constitute a change of control, Fortis would be forced to make a full bid. Fortis hopes to make an agreed rather than a hostile bid but it was not clear last night whether the former option was still possible.

Générale de Banque insisted that "all options were open". But the board's advice was being passed to Belgium's Banking and Finance Commission, the financial regulator, which must rule on the admissibility of deals that would involve the change of control.

Stretched Farah agrees to $93m sale

By Richard Tomkins in New York

Farah, the US clothing company whose stretch trousers found fame in the 1970s movie Saturday Night Fever, has agreed to a $93m takeover by Tropical Sportswear International, a US maker of own-label casual clothes.

Farah's polyester slacks have traditionally been marketed for their wrinkle-free, stain-resistant, easy-care qualities. But in the UK, they have become a fashion item after being adopted for the "nerd" look by some pop stars.

The trend has not extended to the US, where Farah has licensed its brand name exclusively to the Wal-Mart Stores discount store chain. In its domestic market, Farah's most important brand is Savane, the biggest selling brand in cotton trousers after Levi Strauss.

Farah, based in El Paso, Texas, has been struggling against tough competition. In the year to November 2 it made net profits of just $270,000 on revenues of $77m.

Tropical Sportswear, which has agreed to buy Farah for $9 a share in cash, is less well known because most of its clothes are sold under department stores' own names. In the six months to April 4 it made net profits of $4.6m on sales of $82m.

Tropical taste: John Travolta in Saturday Night Fever Picture: AP

Hoechst looks at public offering for chemicals groups

By Graham Bowley in Frankfurt

Restructuring at Hoechst gathered pace yesterday when the German chemicals and pharmaceuticals group said it was considering floating two businesses with combined sales exceeding DM10bn ($5.4bn).

Hoechst said it was looking at plans for a public offering of Celanese, its organic basic chemicals business, and Ticona, the technical polymers unit, as one company.

The unexpected announcement will relieve investors who have urged Jürgen Dormann, chief executive, to speed up the pace of disposals.

Hoechst is transforming from chemicals giant to a company focused on life sciences. But financial markets had become uneasy that the pace of restructuring was slowing.

There have also been fears that Hoechst Marion Roussel, the pharmaceuticals division that is now Hoechst's main business, might be falling behind internationally. In January, HMR disappointed markets after announcing profits this year would be burdened by a further DM700m in restructuring charges.

Klaus-Jürgen Schmieder, chief financial officer, said: "We have not made the decision to do it yet, but a public offering is a very attractive option and we are preparing... There is no decision yet on how much will be floated or where or when."

The financial effect of Hoechst's restructuring was evident yesterday when the group reported that operating profits fell 14 per cent to DM888m in the first quarter. Sales declined 17 per cent to DM11.3bn.

Hoechst said the disposal of businesses since last year accounted for the entire drop in sales. Correcting for the changes to the group's structure, sales increased 3 per cent. Pre-tax profit rose 6 per cent to DM849m.

Hoechst also announced that it had completed the sale of its European textile fibres business to a company controlled by Indonesia's Multikarsa Group.

It forecast that operating profits for 1998 would be about the same as last year. Sales this year would be in the "low DM40bn range", although this depended on which businesses were sold, Mr Schmieder said.

Operating profits at HMR fell 63 per cent in the first quarter. On a comparable basis, the decline was 19 per cent. It took a DM219m restructuring charge in the first quarter.

The Asian crisis hit trading at Celanese in the first three months. The crisis was the biggest cause of the 10 per cent decline in the division's operating profits, because of lower demand and weaker prices.

Trevira, the polyesters division, was boosted by the Asian crisis as it caused a sharp drop in raw material prices.

Lafarge to sell Texan unit

By Jonathan Ford

Lafarge, the French building materials group, has launched a FFr4bn ($650m) disposal programme to finance its expansion in emerging markets.

The group has put up for sale the Texas-based US aggregates business it acquired last December as part of its £1.8bn ($3bn) takeover of Redland, the UK tiles and aggregates company. The disposal could fetch about $250m.

Lafarge, which recently raised FFr3bn through a share issue, said it aimed to spend FFr15bn on acquisitions in emerging economies.

Bertrand Collomb, chairman, said: "Our focus over the next two years will be to take opportunities to develop businesses in newly industrialised economies."

Lafarge is seeking acquisitions in Asia, where a number of cement manufacturers have come up for sale following last year's financial turmoil in the region.

"We are looking at several deals at the moment and I hope that we will see some of them come through over the next six months," Mr Collomb said.

He said owners were reluctant to sell at current low valuations and Lafarge would be willing to go into joint ventures as a prelude to acquisition as long as it had strong "management influence".

Lafarge is also interested in making acquisitions in the Middle East and South America.

The Texan aggregates business has sales of around $200m – about a quarter of the $800m total sales generated last year by Redland's US aggregates division. Lafarge has already received expressions of interest in the business from a number of US and UK groups. It intends to retain the rest of Redland's North American aggregates interests, based in Canada, Colorado and Maryland.

Mr Collomb said the integration of the Redland business was proceeding well and would be completed by mid-June. Lafarge is closing the UK head office of Redland in Surrey, with the loss of about 100 jobs. But it plans to retain all of Redland's other UK businesses.

In France, Lafarge has integrated Redland's aggregate business with its existing interests. Mr Collomb said the process would result in cost savings in production and distribution of between FFr250m and FFr300m a year by 1999.

Lafarge issues its first quarter sales figures this week. Mr Collomb said the group had performed well, helped by the mild winter.

Dana in rival bid for Echlin

By Nikki Tait in Chicago

Dana Corporation, the US automotive components manufacturer, yesterday emerged as a "white knight" bidder for Echlin, the car parts maker which has been fighting a $3bn (£1.7bn) unwanted takeover offer from Michigan's SPX group for the past three months.

A merger would be one of the largest between components makers in a wave of consolidation driven by vehicle manufacturers' desire to rationalise suppliers and to source on a global basis.

Dana said it would offer 0.9293 of its own shares for each Echlin share, valuing the company at about $3.5bn, and take on about $570m of debt. A rival cash-and-shares offer from SPX had been vigorously contested by Echlin.

Wall Street had speculated that a new bidder would enter the fray, and Dana had been mentioned as a strong possibility. Echlin shares jumped $4¼ to $52 1/16, while Dana's stock slipped by $1 7/16 to $57¼. SPX, which said it was "evaluating the situation and looking at all our options", rose $3¾ to $76.

Dana claimed the merger, which has the support of Echlin's board, would give it much stronger presence globally in the automotive after-market, while its own existing emphasis on original equipment manufacturing and supply could help boost Echlin's sales in this segment.

The deal would give Dana additional product lines – in brakes and engine fluid products – and the merged company would have annual sales of about $13bn.

Last year turnover at Dana, which is particularly strong in areas such as axles, structural components and engine components, was just over $8bn.

Southwood Morcott, Dana's chairman, said his company had considered the benefits of a deal with Echlin for years, but moved when the SPX offer put Echlin, based in Connecticut, in play.

The deal was finally struck on Sunday night. "We've talked for a long time...I've got a huge file on them," he said yesterday.

The deal comes after a period of considerable internal restructuring by Dana – much of it through smaller deals.

The combined company would employ just under 80,000 people initially, and expect to shed about 1,500 jobs. Dana, based in Toledo, Ohio, said it saw the deal enhancing earnings in the first full year after the merger.

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FINANCIAL SERVICES NORWEGIAN BANK'S SECOND ATTEMPT AT TAKEOVER MEETS WITH COOL RECEPTION

Christiania bids NKr19bn for Storebrand

By Greg McIvor in Stockholm

Moves to restructure Norway's fragmented financial services industry intensified yesterday when Christiania Bank, the country's second largest bank, launched a NKr19bn ($2.6bn) bid for Storebrand, Norway's biggest insurer.

The offer – immediately rejected by Storebrand as insufficient – is the second attempt to bring the two companies together, following the rejection by Storebrand shareholders of a proposed merger last June.

Storebrand said it would not countenance a bid of less than two Christiania shares for each Storebrand share – based on last Thursday's closing prices. It insisted it would not raise the bid, adding that a merger was "a good industrial alternative".

Storebrand hinted it wanted more time, stressing it had not completed a strategic review in the wake of the failed tie-up. "We are considering all available alternatives ... and have not come so far with that process that it would be natural to sign a letter of intent with Christiania," it said.

However, analysts suggested Storebrand – which initiated last year's talks – might be persuaded to accept were Christiania to increase the exchange ratio to 2:1 and relax demands about the allocation of senior management jobs.

They said a deal would spur much-needed consolidation of Norway's financial sector, which suffers from overcapacity.

Per Ravlo, banking analyst at Terra Fonds in Oslo, said: "Both companies need to sell more services through their branch networks. By merging they could reduce the number of branches and sell more products."

Storebrand's common stock rose NKr4.50 to NKr70 and Christiania shares advanced NKr0.50 to NKr34.70.

A tie-up would create Norway's largest financial services group, overtaking Den norske Bank as market leader. Storebrand has a stock market value of about NKr19bn, against NKr19.2bn for Christiania.

Last year's merger attempt collapsed after Storebrand's management failed to win backing from a group of minority shareholders led by Kjell Inge Rokke, the Norwegian fishing entrepreneur.

Analysts suggested that a 47 per cent rise in Storebrand's share price since last June had improved chances for shareholder consensus over a tie-up this time.

Meanwhile, Christiania's bid is set to reignite speculation of further restructuring in the sector. Sparebanken NOR, a savings bank, and Gjensidige, Norway's second largest insurer, announced last month a far-reaching co-ordination of their businesses.

Bank sees no rush to merge

By Andrew Fisher in Frankfurt

European bankers and analysts have been dazzled by the wave of mega-mergers on the US banking scene, prompting widespread speculation about similar moves in Europe. But not all are convinced this will happen – at least, not yet.

Among the sceptics is Martin Kohlhaussen, chairman of Commerzbank of Germany, itself the subject of takeover speculation over the past year.

Speaking to the Financial Times, he said he did not believe European banks would indulge in cross-border mergers following the deals in the US. "The US mergers are not a blueprint [for Europe] – not at this stage." However, he said that when European tax, social security and political systems had moved closer together, "cross-border activities might be very worthwhile".

There was "no urgent need" for European banks to follow the US merger trend, he said. US banks operated in the world's largest economy but mostly had very regional activities. "So it's a rather logical development in today's world that US banking is becoming nationwide in the true sense."

He added: "I do not believe that cross-border mergers in Europe would offer any additional benefits to clients." Capital market activities could be covered by existing banks, especially with the euro's arrival next year.

In retail banking, differences between countries' tax and other regulations meant this was not really a cross-border activity. The change would come as electronic banking developed, not through the expansion of branch networks across different countries.

While some analysts agree that cross-border mergers in Europe are not imminent, they expect further consolidation within countries. They also believe that Commerzbank, which is smaller than its rivals Deutsche Bank and Dresdner Bank, needs to link with another German or foreign bank, saying it does not have a distinctive enough strategy to survive alone.

Mr Kohlhaussen maintains the bank can remain independent, especially with a market capitalisation of more than DM28bn ($15.7bn).

He said the pattern of banking was changing as companies relied more on capital markets and less on bank loans for raising money. This explained Commerzbank's push into investment banking. "Since commercial banking is becoming securitised, we have to be a player in investment banking."

The emphasis would be on client-related business rather than trading on the bank's own account. The bank needed to offer investment banking services and products to its corporate and institutional clients. "Investment banking is vital to keep our commercial base."

Countering scepticism whether Commerzbank could meet the profits goal set for investment banking, he admitted it was "ambitious" but achievable.

The bank recently said it aimed for a 30.5 per cent net return on equity in the investment banking in 2000. Its target for the group is 15 per cent against 9.9 per cent in 1997.

Mr Kohlhaussen said Commerzbank did not seek to build a big investment banking division with the aim of earning money later, but to develop its global equities business gradually. "We make good money," he said of the growing operation.

Global bonds, in which the bank is already established, and new share issues are also part of its investment banking activities. But the bank did not aim to be a leader in the highly competitive mergers and acquisitions business. "This is not at the top of our list."

Martin Kohlhaussen: US bank mergers not a blueprint for Europe

BRE wins bid battle for Polish bank

By Christopher Bobinski in Warsaw

Poland's Export Development Bank (BRE) yesterday won control of Polish Development Bank (PBR) after Sweden's SE-Banken pulled out of the race and the state treasury offered its 29 per cent stake.

SE-Banken said late yesterday it would let its offer of 28 zlotys a share for the Polish bank expire. However, earlier in the day it indicated it was ready to pay more than the 28.5 zlotys a share offered by BRE, which is 48 per cent owned by Commerzbank, of Germany.

The Swedish group's withdrawal came after Powszechny Bank Kredytowy (PBK) announced it had decided to sell its 22.9 per cent stake in PBR to BRE, in effect sealing the deal.

The treasury later also tendered its stake after it became clear SE-Banken could not win control.

BRE's offer values PBR at $117m, and represents a 27 per cent increase on its original offer of 22.5 zlotys a share.

Trading in BRE and PBR was suspended on the Warsaw bourse yesterday.

On Friday, PBR was trading at 28.5 zlotys, a 43 per cent premium to the market price at the time of BRE's original bid.

BRE already had Citibank's 7 per cent stake and yesterday secured a commitment from the state-owned Industrial Development Agency that it would sell its 15 per cent PBR holding.

The decision by PBK, which was privatised last year, left the state undecided on whether to accept BRE's offer or look to SE-Banken.

Under Polish stock exchange rules, SE-Banken had to wait until May 12 before it could publicly make a new offer.

SE-Banken's latest move follows a diplomatic campaign by the Swedish government as part of an investment drive in Poland.

Pressure from Sweden left the Polish treasury with the dilemma of supporting the entry of a new foreign bank into the country or backing a merger of banks, with foreign shareholders, already established in Poland.

BRE, which is planning a new share issue worth about $100m to pay for PBR, is looking to build its stockbroking and investment banking operations through the acquisition.

Five bidders eye KNP board unit

By Jonathan Ford

Five bidders are competing to buy the corrugated cardboard operations of KNP, the Dutch packaging group, in a deal estimated to be worth about Fl 3bn ($1.5bn).

Three of the bids come from financial investors, confirming the fierce competition that exists in the venture capital industry for large European deals.

Two of these are from UK venture capital groups: Candover and a consortium comprising CVC and Cinven.

The third is thought to come from Investcorp, the Bahrain investment group that recently acquired Watmoughs, the UK printing company.

Two European packaging manufacturers are also involved: David S Smith of the UK and Metsä-Serla of Finland.

Final bids, backed by letters confirming the availability of financing, were sent to KNP last week.

The Dutch group, which announces its first-quarter results today, is expected to invite at least two of the bidders into a run-off in which they would compete to sign a contract.

KNP's packaging division is the third-biggest maker of corrugated board in Europe, producing 1.4bn sq m a year. It made operating profits in 1997 of some Fl 250m.

KNP said in February that it would sell the business as part of plans to focus on its distribution business in graphic paper, office products, printing presses and personal computers.

It also said the business would be demerged and brought to the stock market if it did not receive adequate offers.

The auction comes at a time of mounting competition in the venture capital industry, where about £50bn ($83bn) has been assembled to invest in European deals over the next two years and prices have been mounting.

Traditionally, trade buyers were able to outbid venture capitalists because of the cost savings they could extract from merging acquisitions with their existing operations, but analysts believe that this advantage is being eroded.

Of the potential trade buyers, analysts believe the deal makes most strategic sense for Smith. The UK group is the sixth-biggest European producer of corrugated cardboard at 900m sq m a year and could extract cost savings of up to £30m a year from a merger.

However, the deal would represent a leap for Smith, which is valued at just £727m.

Metsä-Serla, Finland's third-largest forestry products group, has fewer overlaps with the KNP business.

It is relatively weak in corrugated board, with an annual production of just 120m sq m.

Analysts have argued for a consolidation of Europe's corrugated board industry. Prices of fluting and liner, the main ingredients for corrugated board, have risen but end-product prices have failed to rise in step, in spite of volume growth.

NEWS DIGEST

CHEMICALS

Akzo Nobel acquires BASF's paints arm

Akzo Nobel, the Dutch chemicals group, is to strengthen its presence in the German paints market by buying the European decorative coatings business of BASF. While terms were not disclosed, the BASF Deco unit has annual sales of some DM200m ($112m) and employs 450.

Akzo will take over the Herbol brand and be licensed to use another, called Glasurit. The German market for household paints is more fragmented than elsewhere in western Europe, in part because of relatively low home ownership rates; however, about 70 per cent of demand in the sector comes from trade decorators. The deal will give Akzo a leading position in this professional segment.

The purchase comes as Akzo seeks to conclude the agreed takeover of Courtaulds in the UK and divest their combined operations in fibres. In coatings, Courtaulds makes products largely for industrial and marine applications. BASF is keeping its industrial coatings business, moving output from the Cologne plant which Akzo will acquire under the deal by the end of the year. **Gordon Cramb, Amsterdam**

TELECOMMUNICATIONS

ECI advances 30%

ECI Telecom, the Israeli telecommunications equipment manufacturer, said yesterday revenues climbed 15 per cent and net profits by 30 per cent in the first quarter of 1998. The improvement was fuelled by strong sales in its main business units and a more profitable product mix.

Revenues rose from US$160m in the first quarter of 1997 to $184m this time. Net income climbed from $29m, or 38 cents per fully diluted share, to $38m, or 49 cents, over the same period. Results beat analysts' expectations.

David Rubner, ECI's chief executive, said marketing was "very strong" in the quarter, and included a US$19m contract to supply Russia's biggest metropolitan network, a new joint venture in Brazil and initial revenues of a new digital broadcasting system. **Avi Machlis, Jerusalem**

PLASTICS

Borealis ownership altered

Borealis, Europe's largest producer of polyolefins, the raw materials for the production of plastic, yesterday announced the completion of a new ownership structure and the acquisition of additional production capacity in Europe.

The company has been jointly owned by Statoil, the Norwegian state oil and gas company, and Neste, of Finland, since its establishment in 1994. Neste has now sold its 50 per cent share to International Petroleum Investment Company, of Abu Dhabi, and OMV, the Austrian petrochemicals group.

At the same time, Borealis has acquired PCD Polymers from OMV. PCD owns production capacity for 465,000 tonnes of polyethylene and 420,000 tonnes of polypropylene a year, and has plants in Austria and Germany. The PCD acquisition meant a stronger market position for Borealis in Europe, said Svein Rennamo, chief executive of Borealis.
Hilary Barnes, Copenhagen

STEEL

Cockerill warns on Asia

Cockerill Sambre, the Belgian steel group, yesterday warned shareholders that results for the second half of this year could be hit by the slowdown in Asia. The group's annual report, released at yesterday's annual general meeting, said the fall-out from Asia had not been yet been felt, but cautioned that the second half might be affected.

"These upheavals have had no impact as of now on the European steelmaking industry, but uncertainties do exist for the second half of 1998," the report said. It said the Asian crisis had "reduced steelmaking activity in the region since autumn with the consequent risk of tensions appearing in the steel market in the other regions of the world".

Cockerill warned that the Asian situation could intensify competition in the European market, pushing prices down.

It also warned that "uncertainty could result from the reaction of the American market regarding the recovery of the competitiveness of Asian companies on world markets".

Meanwhile, Cockerill said negotiations with the automotive industry remained difficult as a result of the intense competition between steel groups and globalisation of purchasing by car manufacturers. **AP-DJ, Brussels**

CLEANING SERVICES

ISS buys Airspeed Hygiene

ISS, the Danish cleaning and services group, said yesterday it had bought Airspeed Hygiene Systems, a UK company carrying out cleaning operations at London's Heathrow and Gatwick airports. It did not disclose financial details. However, it said the annual turnover of Airspeed Hygiene Systems was about £12m ($20m).

It bought the privately held company from its owners, paying cash and loan notes, it said. "The acquisition ... represents an important step in ISS's plans to establish a major presence at UK airports," said Theo Difissen, ISS Europe managing director. ISS said it was already "a major player" in airport services in Switzerland, Austria, the Netherlands and Belgium. **Reuters, Copenhagen**

AUTOMOBILES

VW silent on Lamborghini

Volkswagen, the German carmaker, refused to comment on a report yesterday that it might be seeking to take over Lamborghini, the Italian sports car manufacturer.

The German magazine Stern said VW had been approached over a possible sale by the Indonesian consortium which owns Lamborghini. VW is currently bidding for Rolls-Royce Motor Cars, the UK luxury carmaker.
Graham Bowley, Frankfurt

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

Schering sales increase by 11%

Schering, the German pharmaceuticals group, yesterday announced an 11 per cent increase in first-quarter sales to DM1.6bn ($899m) and a 7 per cent rise in pre-tax profits to DM312m, writes Frederick Stüdemann in Berlin.

The growth in sales was driven by the female healthcare and therapeutics divisions, which together recorded a 17 per cent increase in turnover. The company said this was largely because of greater volume sales, but higher product prices were also a factor.

The Asian crisis made itself felt in exchange rate losses which, combined with a lower Turkish lira, cancelled out the positive gains offered by the strong US dollar, pound sterling and Japanese yen.

In female healthcare, there was the further impact of relatively new oral and intra-uterine contraceptive products developed by the group's Finnish subsidiary, Leiras, which was acquired in 1996.

Sales of the Mirena intra-uterine contraceptive, which was launched last year, rose more than 120 per cent to DM14m.

In geographical terms, Latin America continued to be a strong provider of sales growth in fertility control products.

Sales of Betaferon, a treatment for multiple sclerosis, which is sold in the US under the name Betaseron, rose 15 per cent to DM181m and accounted for one-third of turnover in the group's therapeutics division.

The company said Betaferon, which in the past has been hampered by its high price, held its ground in the face of increased competition from rivals, though growth was achieved in Europe and not in the US, where sales dipped 3 per cent to DM75m.

Nobel acquires
paints arm

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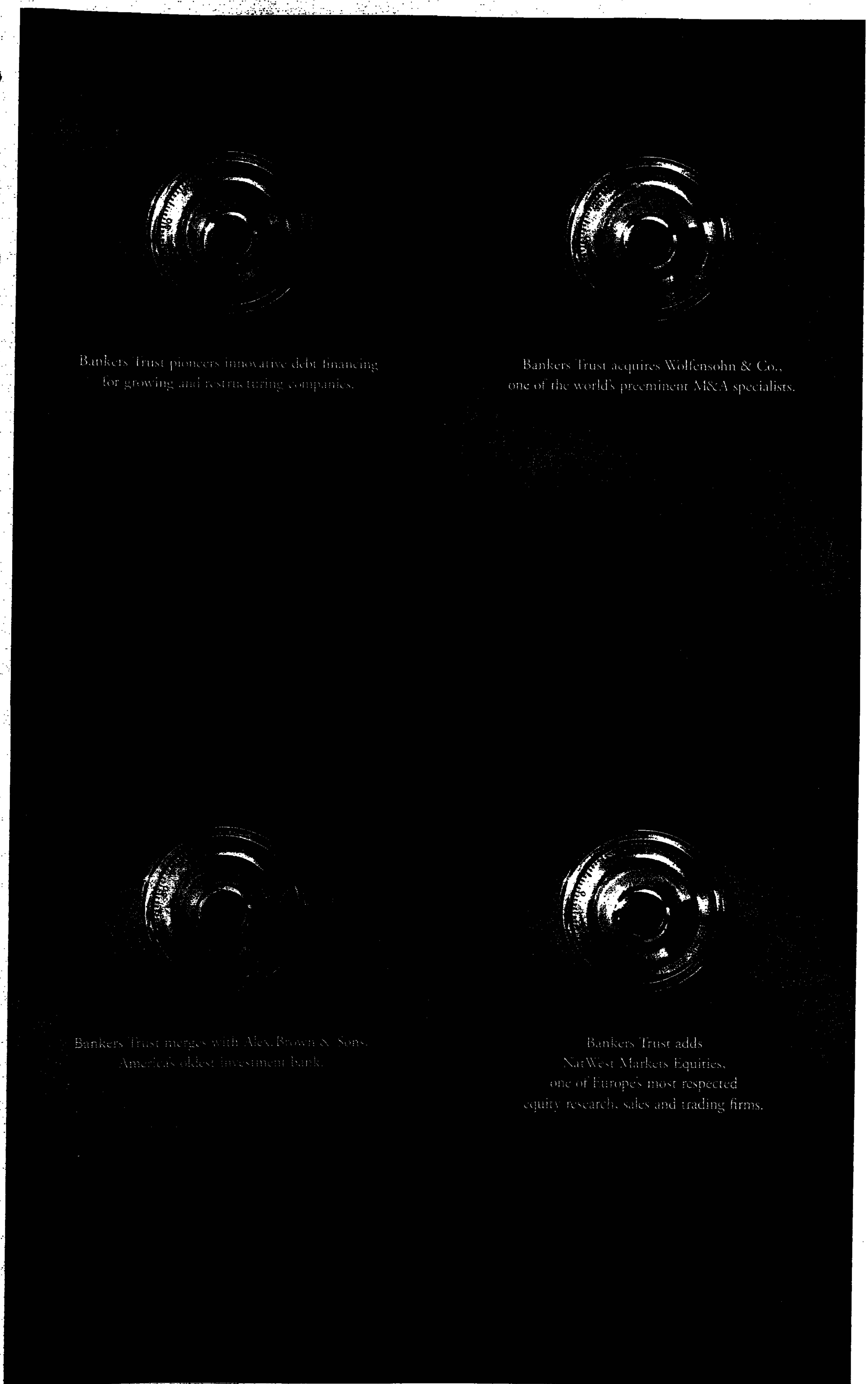
ownership altered

warns on Asia

Airspeed Hygiene

Lamborghini

by 11%



COMPANIES & FINANCE: INTERNATIONAL

SOUTH AFRICA STANBIC AND LIBERTY LIFE DISPUTE VALUATIONS

Disagreement delays merger

By Victor Mallet in Johannesburg

The planned merger of South Africa's Liberty Life and Standard Bank Investment Corporation, designed to create a R80bn ($16bn) financial services company, has been delayed by disagreements over the relative value of the two groups.

In March, the two companies - which have complicated cross-shareholdings - said they hoped to agree by the end of April to simplify their structures and bring together banking, life assurance and fund management operations under the control of a single holding company.

It was one of the largest of a series of moves towards consolidation in the fast-growing South African financial services sector, which has helped boost share prices of banks and life assurance companies.

However, yesterday Stanbic and Liberty Life said it was apparent that "there is an as yet unresolved significant disparity in the views of the parties and their advisers as to the relative valuations of the Liberty Life and Standard Bank groups".

The dispute will be referred to the boards of the two companies "after which time a decision will be made on what further steps are to be taken". Both boards are expected to meet this week.

No further details were disclosed, but bankers and stock analysts said Donald Gordon, founder, significant shareholder and group chairman of Liberty Life, was unhappy with the valuation placed by Stanbic on his organisation. They said it was also likely that there were disagreements over who would run the new holding company.

Negotiations continue, but if the two parties fail to agree, they will probably unwind their cross-holdings and seek new partners in South Africa or overseas. "If it does fall apart, they won't go back to the way they were," said one analyst in Johannesburg.

Liberty Life shares fell R6, or 3.5 per cent, yesterday to R165, while Stanbic closed up 3.3 per cent to R30.90 following a 10-for-one share split.

Liberty Life, with a market capitalisation of R44bn, is South Africa's third biggest institutional investor and has big retail property assets in the UK.

Stanbic, which has a market capitalisation of R37bn, is Africa's largest bank.

Mexican rock promoter is on a roll

CIE plans expansion throughout Latin America, writes Henry Tricks


Bono of U2: bands may soon be regularly touring Latin American soccer stadiums AP

Alejandro Soberón does not look or sound like Latin America's premier rock promoter.

With neat, monogrammed shirts, the soft-spoken 38-year-old looks more at home in a corporate boardroom than he would among screaming teenagers. When he discusses rock music, he bashfully admits he is not even a true fan.

But Mr Soberón has done more than anyone to spread the gospel of live rock music in Mexico, where until 1990 mega-concerts were banned because of government fears of rioting.

Last Friday his eight-year-old company, Corporación Interamericana de Entretenimiento, launched a new share issue to help finance expansion into South America, where until the 1990s a combination of import controls and authoritarian governments had kept rock in the shadows.

The company said the new issue would be of non-voting L shares worth $60m. Current shareholders would have 15 days to increase their stake before the L shares are offered to the general public from May 15.

Part of the proceeds will go towards a recent joint venture with Argentina's flamboyant rock promoter Daniel Grinbank, which aims to turn Latin American soccer stadiums into a single touring circuit for bands such as The Rolling Stones and U2, selling up to 700,000 tickets a venue.

It would make the partnership, known as CIE-RP, the largest live rock promotion outfit in Latin America, where attracting lucrative stadium bands has often been complicated by chaotic management and lax security.

Eyeing a wider consumer market, CIE-RP is also planning theatre productions, funfairs and family entertainment shows. The company has bought a theatre in Buenos Aires to stage a live version of Disney's *Beauty and the Beast*, which has sold some 70,000 tickets during a year-long run in Mexico City.

Borrowing from Mr Soberón's success in Mexico, it also plans to turn region-wide the catch-all concept of computerised ticket sales, telemarketing and event advertising that helped CIE's sales to soar 120 per cent to 278m pesos ($33m) in the first quarter, compared with the same period last year.

CIE has a joint venture in Mexico with Ticketmaster, the US ticket selling company which now operates in Argentina and soon expects to open in Chile. Last week, it announced it would start selling Ticketmaster tickets via the internet. It has also begun computerised ticket sales for everything from baseball games to cock-fighting fairs.

Analysts say Mr Soberón's track record suggests he can sell shares as well as he sells tickets. When CIE went public in 1995, just five years after it was created, it was the first Mexican company to do so in the wake of the country's 1994 peso crisis. After that, the share price surged from 6.95 pesos to some 68 pesos before a split to boost liquidity last month.

CIE was the first Mexican company to graduate from Mexico's illiquid market for medium-cap stocks to the principal stock market, where its capitalisation now stands at about $385m. Analysts say CIE is now joining the "big league" of Mexican companies which are branching out into South America to hunt fresh markets. It has a 70 per cent stake in CIE-RP, with an investment of $35m.

According to Deutsche Morgan Grenfell, the investment bank, its foray southwards could generate additional sales of $40m. Last month CIE-RP took The Rolling Stones to Brazil, where concerts had been notoriously shambolic.

In Argentina and Chile, where Mr Grinbank has long been the leading tour promoter, CIE hopes to bring its financial clout to bear as well as a track record in organisation and security that often make its concerts so trouble-free they are more like family outings.

If that sounds tame to a diehard rock fan, Mr Soberón is unapologetic. He cheerfully admits he is no rock ideologue, and has stood aside for Mr Grinbank - more the typical rock entrepreneur with long hair and jeans - to be CIE-RP's chief executive. "I must be a disappointment. I see rock more from an industry view than from an ideological one," Mr Soberón says. "Fun is serious business."

It is also good business. Because of pent-up demand, he says ticket sales for live rock in Mexico dipped just 3 per cent in 1995 when Mexico's economy fell into its worst slump in 50 years.

Equally recession-hardy could be sport. One of Mr Soberón's dreams is to provide ticketing for Latin American soccer matches.

From his penthouse offices in Mexico City's upscale Palmas district, he can also gaze over what may become a more gentrified future. Less than a mile away is Mexico's main racecourse, the Hipódromo, that CIE recently won a contract to operate with the US Kentucky Derby operator Turfway Park. There he plans to build a smart hotel and convention centre and take race meetings upmarket.

Gildemeister in deals to supply tools to US

By Peter Marsh

Gildemeister of Germany, one of the world's biggest machine tool companies, has teamed up with two big US equipment makers in long-term supply deals.

Under the contracts, Gildemeister will supply machines and technical expertise over several years to the worldwide factories of Fairchild Corporation, the world's biggest maker of aerospace fasteners, and the surgical implants division of Johnson & Johnson, the healthcare supplier.

The deals are unusual in the machine tool industry in tying non-automotive customers to a single source of machines over a period of up to five years. As much as a quarter of the contract price in each case is expected to consist of technical consultancy, as opposed to the provision of new hardware.

Under the agreement with Fairchild, Gildemeister will provide about 300 machines, mainly computer-controlled lathes, over five years in a deal worth about DM70m ($39m).

The machines will be installed at eight Fairchild factories - three each in the US and France, and two in Germany - where the US company makes products for big aerospace customers such as Boeing and Airbus.

Aerospace fasteners - high-tech versions of rivets or nuts and bolts - hold together parts of modern aircraft and have to be highly accurate.

The deal with Johnson & Johnson is based around supplying machines to a plant in Ireland, part of the US company's "professional" division which makes items such as artificial joints.

While long-term tie-ups between machine tool companies and carmakers are relatively common, as the latter have organised more of their factories on a global basis, contracts of this sort are in their infancy in other manufacturing sectors.

They reflect not only keenness by multinationals to use the same standard of machines in plants around the world, but their desire to contract out to suppliers the job not just of installing equipment but specifying how it should operate and planning other parts of their factories.

Gildemeister last year had sales of DM867m and achieved a small profit after several years of financial problems. It is hoping to increase sales and earnings through more global "turnkey" projects similar to those with Fairchild and Johnson & Johnson.

ABN Amro unveils part in S Africa bid

By Victor Mallet

ABN Amro, the Dutch bank, announced yesterday that it had helped Peter Vundla, the South African entrepreneur, to finance the winning bid for one of Africa's biggest food groups by underwriting R404.6m ($80.1m) of preference shares in a new company called Pamodzi Foods.

Mr Vundla's unlisted Pamodzi Investment Holdings led a buy-out of Foodcorp for R1.81bn in one of South Africa's biggest "black empowerment" deals to date.

Sanlam, the mutual life assurer, had been the largest shareholder in Foodcorp but decided to focus on financial services while simultaneously supporting the sale of assets to black investors.

ABN Amro, which flew Pamodzi executives to Amsterdam to discuss the agreement, said it was confident that there was strong demand for the preference shares, both from international and South African investors.

This was the largest underwritten preference share issue in South Africa and it had funded the country's biggest leveraged buy-out, it said.

The two sides chose preference shares as a means of finance because they are tax-free on redemption in South Africa but are similar to bonds.

Other financing structures would have cost Pamodzi at least R60m more, ABN Amro said.

The shares mature in about three years and yield more than 16 per cent net annually.

"We're marketing this to fixed-income institutions," said David Bate, ABN Amro vice-president for corporate finance in South Africa.

Pamodzi said it might list either Pamodzi Investment Holdings itself or one of the food holding companies within three years, in which case the preference shares could be converted to ordinary shares.

Mr Vundla declined to say how he had raised the additional R1.4bn for the buy-out, but insisted that the Foodcorp deal made a more genuine contribution to black empowerment than other takeovers similarly financed by borrowed money.

This was because Pamodzi focused on sectors it understood well, had taken a majority rather than a minority stake, and had executives who could add value to the companies they were buying.

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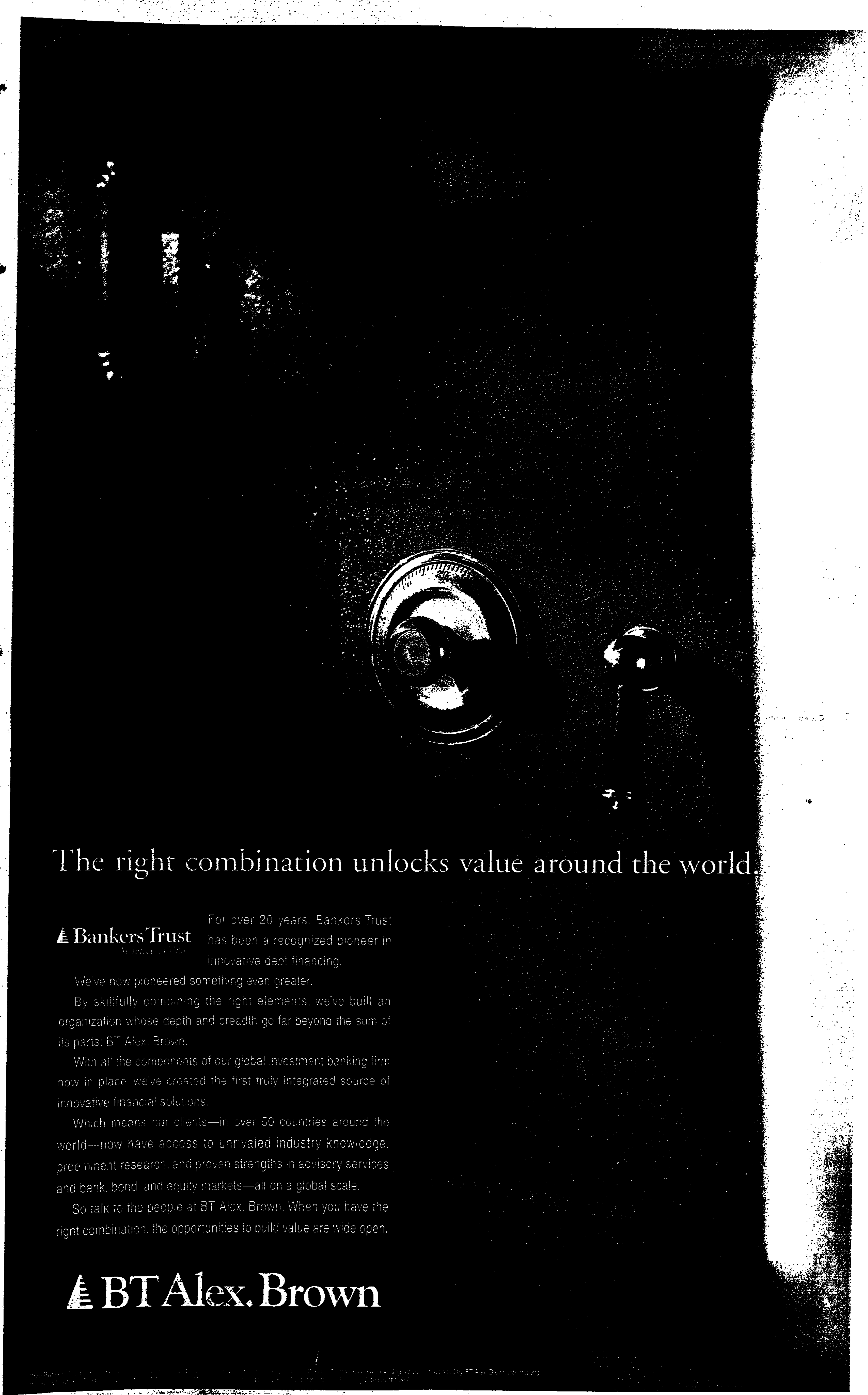
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By skillfully combining the right elements, we've built an organization whose depth and breadth go far beyond the sum of its parts: BT Alex. Brown.
With all the components of our global investment banking firm now in place, we've created the first truly integrated source of innovative financial solutions.
Which means our clients—in over 50 countries around the world—now have access to unrivaled industry knowledge, preeminent research, and proven strengths in advisory services and bank, bond, and equity markets—all on a global scale.
So talk to the people at BT Alex. Brown. When you have the right combination, the opportunities to build value are wide open.
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BIOTECHNOLOGY COMPANY'S CANCER TECHNOLOGY DESCRIBED AS 'THE SINGLE MOST EXCITING THING ON THE HORIZON'

EntreMed soars on enthusiastic report

By Victoria Griffith in Boston

The share price of a tiny Maryland-based biotechnology company almost quintupled yesterday after an article enthusiastic about its cancer technology appeared in Sunday's New York Times.

Company officials at EntreMed were shocked when its stock price soared from $12¼ to $85⅜ in mid-day trading yesterday.

The newspaper quoted Dr Richard Klausner, a prominent researcher at the US National Cancer Institute, as calling the technology "the single most exciting thing on the horizon" for the treatment of cancer. The story was picked up by television news and newspapers around the country.

EntreMed was formed to develop and market two molecules, endostatin and angiostatin, which starve cancers by depriving them of the blood they need to grow. Discovered by Dr Judah Folkman of the Boston Children's Hospital, both molecules inhibit the formation of new blood vessels when injected into tumours.

In mice, the molecules have been shown to cure all forms of cancer with no side effects.

Biotechnology stocks commonly rise and fall steeply based on trial results, but such price changes are very unusual in technology that is in pre-clinical stage, as EntreMed's anti-cancer molecules are.

The company will not start human clinical trials for at least another year.

"[The share price surge] is certainly a surprise, since we haven't issued any major announcements on our drugs for at least a month and we're so far from approval by the Food & Drug Administration," EntreMed said.

Moreover, the good news about EntreMed's technology has been known for months. A cover story in the science journal Nature last year revealed that one of EntreMed's anti-cancer molecules, angiogenesis, had cured tumours in mice. The New York Times itself had already published two articles on the research in the past six months.

EntreMed researchers warned that their anti-cancer research was years away from approval.

While the National Cancer Institute – which was unavailable for comment yesterday – has said it would like the drugs to be fast-tracked for approval, it has no influence in the matter. The leap from mice to humans, moreover, is often disappointing.

Big may not be so beautiful

Consolidation in US banking has acquired its own momentum, but some doubt the underlying logic, writes John Authers

Many superlatives have been applied to the wave of consolidation that has swept through the US banking sector in the past five years: but last month they were justified.

April saw the announcement of the three most expensive bank takeovers in US history, plus a bid to make the fourth largest.

Apart from the decision by Citicorp, the largest US bank by deposits, to sell to Travelers Group, a financial conglomerate encompassing investment banking and insurance, for $82.5bn, the month also saw the $66bn purchase of California's BankAmerica by NationsBank of North Carolina, and the $29.5bn takeover of First Chicago NBD by Banc One.

According to UBS Securities, the three resulting banks will have a joint market value of $332bn, more than the $259bn which the entire US banking industry was worth at the end of 1994.

Other sectors of retail financial services have also been affected. In Canada, four of the largest five banks are merging, while March saw the takeover of H.F. Ahmanson, the second largest thrift in the US, by Washington Mutual, the largest, in a deal worth $9.87bn.

Furthermore, the consolidation is not yet over.

While the Citicorp and BankAmerica deals are likely to remain the largest for a while – because there are few independent banks which could command such a price – numerous large banks are known to be considering combinations which would have seemed unthinkable only a few months ago.

Thomas Hanley, the veteran banking analyst for UBS Securities who has consistently backed both NationsBank and Citicorp over the past few years, describes conditions as "bank heaven". He says the low interest rates and inflation and low credit losses created by the current healthy US economy have enabled "the rebuilding of the liquidity, earnings and capital structures of banks".

This has given them the strength, and the share price, to make acquisitions. Another factor is that the market is still highly fragmented, thanks to Depression era regulation which limited the spread of banks into more than one state. Even the new NationsBank/BankAmerica combination will have only about 8 per cent of US deposits.

Historic inefficiency has combined with improvements in information technology to offer the prospects of economies of scale and cost cuts.

According to Mr Hanley's estimates, the average cost saving as a proportion of the target's cost base projected by acquirers in mergers where the banks' networks overlap, has increased from 14.7 per cent in 1995 to 32.3 per cent in deals announced so far this year.

The process has also acquired its own momentum. Several bank chief executives say they are exploring mergers simply to avoid the risk of being left without a partner.

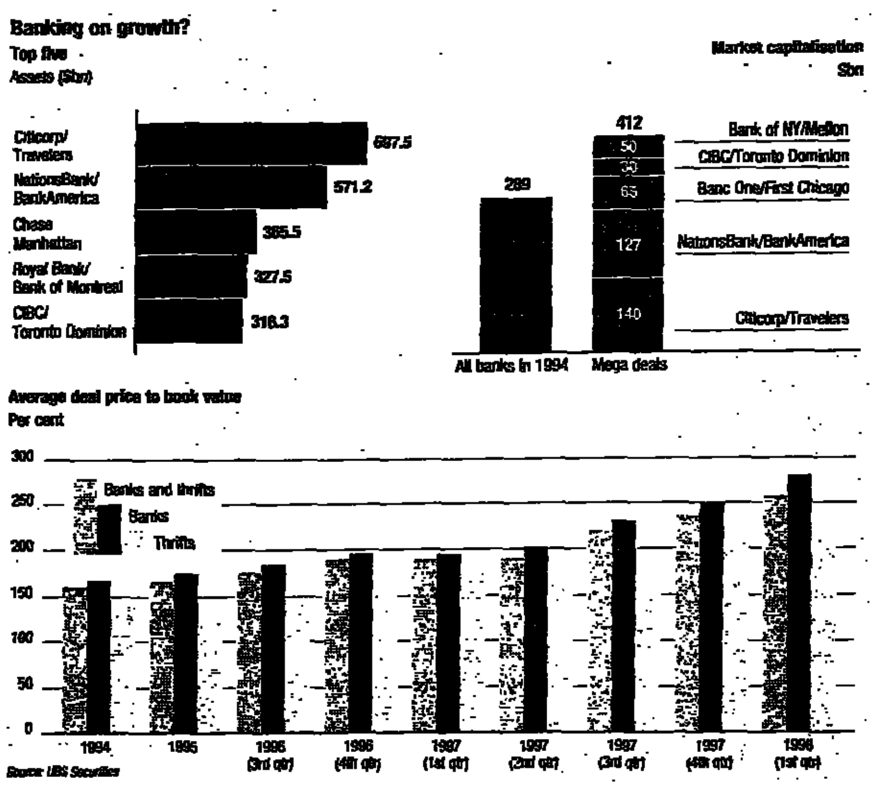
However, there are also growing fears about the logic underlying the mergers. In particular, some commentators have started discussing the possibility of "diseconomies of scale".

Tanya Azarchs, who analyses banks for Standard & Poor's, the New York-based rating agency, pointed out last week that the new huge banks would be safer from a credit perspective, because they were so diverse, but suggested they may now be growing too big from the shareholders' point of view.

There is also disquiet at the multiples which banks are prepared to pay, which seem inflated. Using the standard yardstick of a bank's "book value", or total assets, the average multiple paid in the first quarter of this year was 2.88 times book value. This was up from 2.01 times book in the first quarter of last year, and an average of 1.72 times book in 1994, when banking consolidation was already swift.

Bank of New York's unsolicited stock swap offer for Mellon Bank of Pittsburgh, which remains on the table although rejected by Mellon's board of directors, values the target at 5.71 times its book value.

Greater focus is also being placed on implementation. Frank Cahouet, Mellon chief executive, rejected BoNY's offer because of "execution risks". He felt that cost cuts required to make the merger work would lead to lost revenue – a phenomenon which hit Wells Fargo hard after its $12bn acquisition of First Interstate early in 1996.



The more expensive mergers mostly rest on heavy cost cuts without loss of deposits. Some, such as the Citicorp/Travelers deal, require "revenue synergies", or gaining revenues through selling more products. While both concepts make strategic sense, they require good implementation.

Henry Kaufman, the highly respected Wall Street economist, attempted to douse the enthusiasm last week, saying "it is hardly a foregone conclusion that every one of the large mergers that have been done or will be done can be carried off successfully".

He provided a list of problems. "The combined institution may not be able to realise as many economies of scale as it had assumed possible. In such areas as credit appraisals, diseconomies of scale may be encountered.

"The new institution may lose more customers than expected. And the consolidated institution may not even be able to improve pricing power, because it will be competing with other large organisations equally intent on developing nationwide franchises."

But in spite of these concerns, speculation remains that several big deals are in the pipeline. These might involve the large European "universal" banks, such as HSBC, Credit Suisse and ING Barings. Within the US, several medium-sized regional banks are seen as likely targets, such as Crestar in the mid-Atlantic, Summit in New Jersey, and KeyCorp in Ohio.

Bigger combinations widely touted include a takeover of Fleet Financial, the largest bank in New England, possibly by First Union, whose franchise spreads up the Atlantic coast from Florida to New York, and a buy-out of Wells Fargo by US Bancorp of Minneapolis.

Arco agrees $2.5bn buy

By Tracy Corrigan in New York

Arco, the US-based oil company, yesterday agreed to buy Union Texas Petroleum in an all-cash deal valued at $2.5bn, a 40 per cent premium to the company's market value.

Arco will pay $3.3bn including debt and preferred stock.

The company said that buy-out firm Kohlberg Kravis Roberts had agreed to sell its 25.6 per cent stake in Union Texas.

Mike Bowlin, Arco chairman and chief executive, described the deal as "an important building block. This acquisition is consistent with our strategy of building scale and presence in five to six core producing areas".

He said he expected the merger to produce after-tax savings of at least $85m a year eventually. There was an "exceptional degree of overlap between the assets of the two companies", as more than 90 per cent of Union Texas' assets are located in Arco's core producing areas, particularly in Venezuela, Indonesia, the North Sea and Alaska.

The deal will be financed initially by commercial paper and other short-term borrowings, backed by existing and additional bank facilities. Arco planned sell some assets to reduce its debt to capital ratio to a little over 40 per cent, it said.

The ratio is set to rise to 51 per cent after the deal.

The group's Australian coal business is up for sale, and it will consider the sale of other assets, including Union Texas's petrochemical unit. Arco recently sold some US coal assets and its stake in Lyondell Petrochemical.

The deal would dilute earnings until the end of 1999 "only modestly", but be accretive to operating cash flow in the first year, the company said.

Arco shares slipped almost 3 per cent to $78¾ following the announcement of the deal, while Union Texas shares gained nearly 40 per cent to $28⅜, reflecting the premium in Arco's bid price.

Boeing leads phone project

By Richard Waters in New York

The latest in a growing line of global satellite telephone systems moved a step closer to reality yesterday with news that Boeing had been signed up as the lead contractor for the proposed Ellipso service.

Owned by Mobile Communications Holdings, a private US company, the system would be based on fewer satellites than some rivals and, at $1.4bn, prove far cheaper to build, its supporters claim.

News that Boeing would lead the project comes as Iridium, the first of the global mobile telephone ventures, is on the brink of completion. That service, backed by Motorola, is based on a network of 66 satellites in low earth orbit. Close behind is Globalstar, backed by Loral, which launched the first of its 48 satellites in February.

The Ellipso system's 16 satellites – with an extra satellite available as a spare – would move in an elliptical orbit round the earth, a pattern that the company said would allow it to concentrate its capacity over its largest geographic markets during daytime hours and so reduce the number of satellites it would need.

Boeing, which was selected yesterday to lead the project from design through to deployment of the satellites, said it would allocate up to 300 people to the project. It will also take an equity interest in Mobile Communications, although the two sides did not reveal the size of the stake. Mobile Communications hired Merrill Lynch last month to advise on financing.

Boeing is already spearheading a separate global satellite venture – Teledesic, a service backed by Bill Gates and Craig McCaw, one the most successful US telecommunications entrepreneurs. Unlike that plan, which is based on internet services, Ellipso would compete head-on with Iridium, Globalstar and another venture, ICO Communications, in providing global mobile voice service.

NEWS DIGEST

BERKSHIRE HATHAWAY

Long-term benefits seen from introduction of euro

Warren Buffett, the investor known as the sage of Omaha, and his partner Charlie Munger yesterday warned that the introduction of the euro was likely to cause "hurt" but in the long term would bring huge benefits to the global economy.

In an interview with the Financial Times ahead of the annual meeting of Berkshire Hathaway, the investment company they head, Mr Munger said "a lot of people will get hurt in the process" of creating the single currency. However, Mr Buffett added that "in the end it will work to the world's benefit over time".

Berkshire is one of the most powerful investment companies in the world and owns large stakes in several US blue chip companies, including Coca-Cola, Gillette and Walt Disney.

Mr Buffett said he expected further rapid consolidation in the financial services industry. Berkshire is one of the largest shareholders in Travelers Group, the financial services conglomerate which recently announced plans to join forces with Citicorp in the largest merger in history. "When something like that [the consolidation process] gains momentum, it starts to feed on itself," said Mr Buffett. "It has caused every manager of every financial service organisation to be thinking actively about a whole lot of possibilities they were not thinking of a year ago."

Earlier, at a press conference, Mr Buffett said that following the sale of a "little of several" of Berkshire's stocks, there had been a "drifting up" of the size of its cash holdings.

Speaking of McDonald's, the fast food chain, whose share price was hit in March when it emerged that Berkshire had sold some of its shareholding in the company, he said: "We think it's an absolutely first-class company," but "the fast food business might be a little tougher than I first thought."
William Lewis, Omaha, Nebraska
See Observer

FINANCIAL SERVICES

Equitable advances

The Equitable Companies, the US financial services conglomerate in which Axa of France has a controlling stake, yesterday announced a rise of 62 per cent in operating earnings for the first quarter. Its investment management businesses continued to benefit from the bull market and the impact of heavy saving by members of the post-war "baby boom" generation. This was equivalent to 92 cents a share, far above the 79 cents which had been forecast by a consensus of analysts polled by Boston-based First Call, and Equitable's shares gained strongly in morning Wall Street trading as a result. By mid-session, they were up $1¾ at $65¼.

Operating profits from its insurance and annuity operations, which are mainly built around retirement savings, rose 59 per cent to $122.4m. This figure excluded investment gains, and deferred acquisition costs arising from its demutualisation three years ago. Total annuity premiums rose 52 per cent over the year to $981.2m, while mutual fund sales grew 50 per cent to $593.6m. The company said the expenses for its life and annuity business rose by only 2.9 per cent.

Equitable also controls the Donaldson Lufkin & Jenrette investment bank, which had already recorded a 55 per cent increase in operating profits to $134.1m, backed by strong results from its high-yield bond underwriting business.
John Authers, New York

HOTELS

Posadas in Caesar Park buy

Grupo Posadas, Mexico's largest hotel operator, is expanding into Latin America with the acquisition of three Caesar Park hotels in Argentina and Brazil for $123m and the purchase of the Caesar Park brand for Latin America and the Caribbean. "The Caesar Parks attract high-income foreign tourists and businessmen," Manuel Borja, Posadas vice-president for financial planning, said yesterday. "They will give us a strong foothold in the luxury end of the Latin American hotel market."

The Caesar Parks in São Paulo, Rio de Janeiro and Buenos Aires were bought from Aoki Corporation, a Japanese investment group. Despite the strength of the Argentine and Brazilian currencies, Mr Borja said the dollar-linked tariffs charged by Caesar Park hotels provided a natural hedge against devaluations. With the new acquisitions, Posadas has become the largest hotel chain in Latin America with 51 hotels and more than 11,000 rooms in five countries.

Mr Borja said Posadas also planned to introduce its successful Mexican chain of Fiesta Inn hotels, which cater to the travelling businessman, throughout Latin America. The group might also bid for the Camino Real chain of hotels, which is being auctioned this year by the Mexican government.

Posadas posted net sales of 459m pesos ($54m) in the first quarter of 1998, a 2 per cent increase over 1997. The company said the weather effects of El Niño had caused lower occupancy rates at its beach resorts during the peak winter holiday months. Nevertheless, cash flow increased 7 per cent to 158m pesos and net majority income was 45 per cent higher at 147m pesos. **Leslie Crawford, Mexico City**

TELECOMMUNICATIONS TERRITORY'S LEADING CARRIER MEETS FORECASTS BUT SURPRISES WITH HK$2bn CHARGE

Hongkong Telecom advances 11.6%

By Louise Lucas in Hong Kong

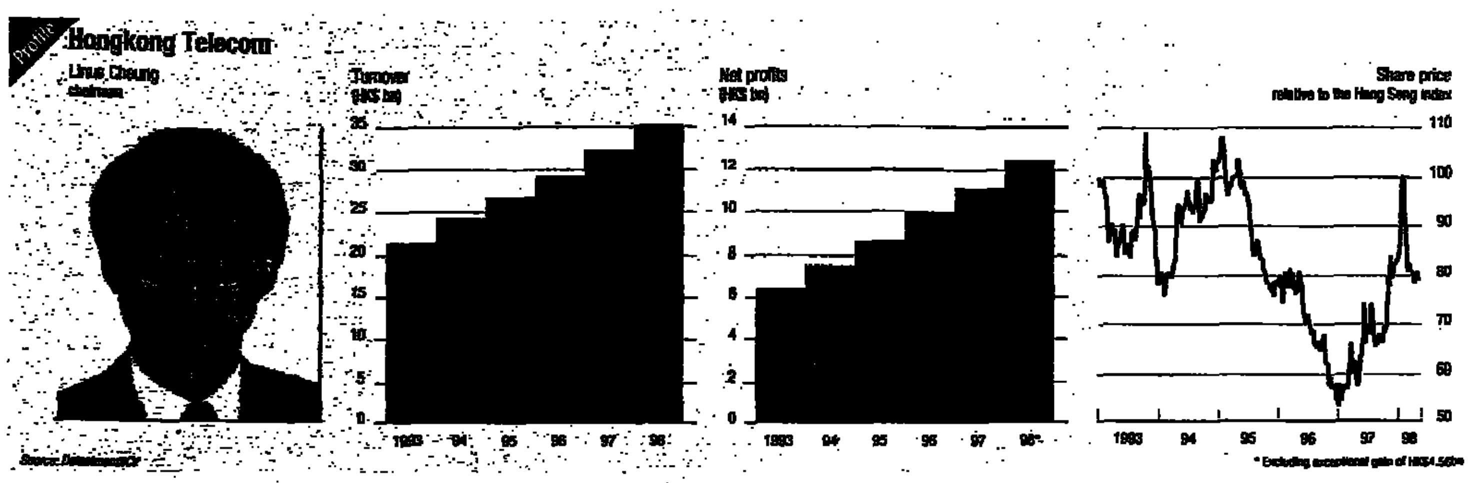
Hongkong Telecom, the territory's dominant carrier, posted an 11.6 per cent rise in net profits to HK$12.47bn (US$1.6bn), before exceptional items for the year to March 31.

The figure was in line with market expectations, but the company surprised analysts by taking a HK$2bn charge against write-offs of obsolete equipment. The charge was timed to coincide with a HK$6.7bn exceptional gain, which is part of the compensation paid by the government in return for the company's early surrender of its monopoly in international direct dialling.

Including the exceptional items, profits rose 52 per cent to HK$17.03bn. Recurrent earnings growth showed that Hongkong Telecom has started to feel the impact of the economic slowdown in the territory, with a deceleration in international traffic exacerbated by growing use of callback.

These services, whereby a call is made via a third country and bounced back as a cheaper incoming call, are believed to account for 40 per cent of all international calls from China. Hongkong Telecom has sought to stem the loss of revenues by launching its own callback operation, which it said yesterday had been "highly successful".

"Profit growth is coming from interest income and cost-cutting," said Dylan Tinker, regional telecoms analyst at Jardine Fleming Securities. Jake Lynch, also of Jardine, estimated that HK$1bn came from interest income last year, a rise of 41 per cent over the previous year.



The company, which is majority-owned by Cable and Wireless of the UK, had a cash pile of HK$12bn at the end of the financial year, and was able to capitalise on high interest rates in Hong Kong as the authorities sought to defend the currency.

However, investors who would prefer to see the cash spent on investments in China and the rest of Asia were likely to remain disappointed, analysts said.

China deals are regarded as no nearer than they were before C&W sold China a slice of Hongkong Telecom last year, in return for a promise of access to the mainland market.

South-east Asia, which should provide more fertile ground in the wake of the regional crisis, is in effect ruled out by C&W's desire to have majority control, which would limit its shopping list to the heavily indebted telecoms companies. In any event, these purchases are unlikely to be made through Hongkong Telecom.

New areas of investment are important for Hongkong Telecom. It will begin to lose its stranglehold on the IDD market next January, with the introduction of international simple resale, which enables companies to lease and on-sell Hongkong Telecom capacity.

The following year, competitors will also be able to set up their own infrastructures. In response, Hongkong Telecom has been diversifying into internet and interactive TV services, although the latter are expected to make losses of about HK$500m this year, their first of operation.

Jeff Camp, regional telecoms analyst at Morgan Stanley Asia, said data services – which have been growing at about 30 per cent a year – would start to make reasonable contributions to earnings, in line with the pattern in countries such as the US.

"It's encouraging that that's becoming a stronger part of the business," he said.

Earnings per share before exceptionals rose 8.3 per cent to 105.3 cents last financial year, and the dividend has been lifted 11.7 per cent to 85.2 cents.

Benpres ahead at 2.3bn pesos

By Justin Marozzi in Manila

Benpres Holdings, the Philippine utility and infrastructure conglomerate, yesterday reported profits up 15 per cent to 2.3bn pesos ($57m) in 1997.

Benpres, which has investments in broadcasting, banking, power, water, property, infrastructure and telecoms, said consolidated revenues rose 22 per cent, from 5.4bn pesos to 6.6bn pesos.

Shares in the group, which released incomplete 1997 results in March, rose slightly to close at 7.4 pesos.

The Lopez family, which owns 54 per cent of Benpres, last month restructured the group's media interests to allow foreign ownership. At present, foreign investors are prohibited from buying shares in local media companies.

Broadcasting and cable is a core business for the group – representing 53 per cent of total earnings – through its 71 per cent stake in ABS-CBN, the country's largest media group, and its 20 per cent holding in Sky Vision. ABS-CBN last week announced first-quarter profits ahead 25 per cent to 309.5m pesos. Benpres was also lifted by Rockwell Land, its property subsidiary, and Bayantel, its telecoms arm.

Power generation and distribution accounted for 28 per cent of profits, with 19 per cent coming from banking and other interests.

Benpres has also moved into infrastructure recently. Last year, through the Maynilad Water Services consortium, it won the 25-year contract to operate one of Manila's two water concessions. Last month, Benpres announced that Maynilad Water and First Philippine Holdings, which operates a gas company, would raise $470m through loans and by issuing convertible bonds. Proceeds will be used to finance infrastructure requirements.

Investors have praised the group's management and welcomed the move to allow foreign ownership. "Benpres is one of the few Philippine conglomerates with a clear strategy – to provide integrated multimedia and basic services to households – which offers synergies across its businesses," said an analyst at a foreign brokerage.

NEWS DIGEST

INVESTMENT BANKING

China International Capital Corp chief dies

Austin Koenen, chief executive of China International Capital Corp, the pioneering Sino-US investment banking joint venture partly owned by Morgan Stanley, died at the weekend in Beijing. No successor has been named, and in the short term his work will be carried out by various deputies.

Mr Koenen, 56, previously headed the public finance division for Morgan Stanley Dean Witter in New York, before being relocated to Beijing in July 1996.

CICC, launched in 1994, has enjoyed success in equity underwriting and direct investment. It has secured a number of high-profile mandates, including the flotation of China Telecom (Hong Kong) – the first vehicle to give foreign investors equity participation in China's closely guarded telecoms market – and its subsequent acquisition of a mobile network from its parent. **Louise Lucas, Hong Kong**

EGYPT

Tax changes hit CIB

Radical tax changes cut profits at Egypt's leading private-sector bank by 30.5 per cent in spite of increased income.

Commercial International Bank (CIB), Egypt's largest privately owned bank in terms of assets, blamed the fall in net profits, to E£47m ($13.8m) in the first three months of 1998, on a government decision to close a tax loophole allowing banks and other institutions to deduct interest expenses from their profits.

Banks were also badly hit by the closure of the loophole affecting relief on interest paid on money borrowed to buy treasury bills and time deposits.

The profits decline came in spite of a 16.9 per cent increase in net operating income. That growth was fuelled by increased fee income, foreign-exchange trading and investment banking revenues. The tax change resulted in an 8.9 per cent fall in CIB's total assets, from E£13.4bn to E£12.2bn.

CIB's fall in profits was 10 per cent deeper than expected. All of Egypt's large banks are expected to report similar declines, while industrial groups will also see profits suffer, according to analysts. The tax change has already resulted in many banks off-loading treasury bills. **Mark Huband, Cairo**

INTERNET NETWORKING

Cisco in Israeli acquisition

Cisco Systems, the US internet networking company, yesterday said it agreed to purchase Class Data Systems, a private networking start-up company based in Israel and California, for $50m in stock and cash.

The acquisition, Cisco's first in Israel, is the latest in a wave of foreign investments in the Israeli technology sector. The deal will be completed next month and Cisco will incur a one-time charge against after-tax earnings of 2-4 US cents a share in the fourth quarter.

Cisco, which already has a research and development centre in Israel, said Class Data's software allows system administrators to prioritise network traffic.

According to Israel's trade and industry ministry, foreign investment in high-tech companies climbed 25 per cent, from $1.21bn in 1996 to $1.5bn in 1997.

Venture capital, which has helped create start-up companies such as Class Data has also been increasing. The Israel Venture Association said yesterday that venture-capital funds raised doubled, from $287m in 1996 to a record $578m last year. **Avi Machlis, Jerusalem**

BANKING

Sanwa to cut low-yield loans

Sanwa Bank will reduce low-yield loans by Y1,200bn ($9bn) in the US and Europe over the next two years, according to the Nihon Keizai Shimbun.

It also plans to close 17 branches in the US and Europe this year and strengthen operations in Asia outside Japan. In the US and Europe it will reduce its dealings with leading corporate clients and focus on loans to small and mid-size companies, securities operations and the derivatives business.

Sanwa intends to shut 10 offices in Europe and seven in the US and Central America, and to integrate US offices handling loan management into its New York branch.

As part of its strategy of boosting operations in Asia, the bank has invested Y10bn in Siam Commercial Bank in Thailand and formed ties with five banks in the region to strengthen its fund settlement service for Japanese companies operating there. **AP-DJ, Tokyo**

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com

VENTURE CAPITALISTS

Cinven raises further $2.5bn

By Jonathan Ford

Cinven, the venture capital group, has raised £1.5bn ($2.5bn) from 50 international institutions to invest in buy-outs in the UK and continental Europe.

The move entrenches Cinven as one of Europe's most active venture capital funds, particularly at the larger end of the market. Over the past 12 months, it has backed the continent's two largest buy-outs.

In January, Cinven funded the acquisition of IPC Magazines from Reed Elsevier, the Anglo-Dutch media group, for £860m and last July it backed the £1.1bn buy-out of the hospital and healthcare arm of Générale des Eaux.

Cinven, itself a buy-out from the British Coal pension fund in 1995, last raised money in November 1996, when it assembled a £1bn fund from 25 institutional investors. This is now almost fully invested.

Cinven's fundraising is the latest in a wave of such exercises by UK venture capital groups. Recent research by KPMG Corporate Finance estimates that there is £50bn to be spent across Europe in the next two years.

John Brown, deputy managing director of Cinven, said about two-thirds of the commitments received had come from the UK and continental Europe, with the remainder coming from North America, the Middle East and east Asia.

He expected at least half the fund to be invested in UK deals, with the remainder on the Continent. "Although the European market is growing fast, they still don't have the infrastructure or the exit opportunities that there are in the UK."

The fund is aimed at deals of at least £50m.

Cinven is involved in a number of large deals. It is bidding for the packaging division of the Dutch paper and distribution group, KNP, said to be worth £900m. It was also the under-bidder in the auction for RAC's motoring services business, expected to be bought by Cendant of the US for £450m.

CRS losses may prompt break-up

By Peggy Hollinger

Co-operative Retail Services, which operates supermarkets, department stores and funeral parlours, will today announce a significantly deeper annual loss as it struggles to revive its ailing food retailing business.

The UK's largest single co-operative retail society saw pre-tax loss almost double from £13.5m to £25.6m ($42.5m) in the year to January 31 1998. Sales were static at £1.54bn.

The retailer's worsening performance since it incurred its first loss in 15 years in 1996 could trigger another opportunistic effort to break up Britain's under-performing mutually-owned stores groups.

Andrew Regan's controversial attempt last year to take over CRS's sister group, Co-Operative Wholesale Society, was launched after it announced a sharp drop in profits.

Mr Regan dropped his pursuit after he and another executive of Lanica Trust were filmed in a hotel car park handling documents given to them by a senior CWS executive, who was later sacked.

Today's figures are also almost certain to revive pressure for a merger of CRS and CWS. CWS last week announced its third year of profits decline. But Harry Moore, the departing chief executive of CRS, said he was convinced "the medicine is working" to revive the food division. He pledged CRS would return to profit this year at the trading level.

In the first 12 weeks of the current financial year, he said, CRS was showing a 3.5 per cent increase in overall like-for-like sales, with a stronger 4 per cent improvement in the food division.

The group had embarked on "radical surgery" in 1997-98, investing £155m in refurbishing stores, installing information systems and improving distribution and product development.

Almost 100 of the 480 stores had been refurbished during the year and a further 100 were scheduled for this year.

Mr Moore said the renovated stores were showing sales increases on average of about 38 per cent.

"We are getting our house in order, but such fundamental change does not come without cost," he said.

"Tighter financial controls are now in place and the next phase of the programme will be achieved with nothing like the impact on profits that we have seen in 1997."

Mr Moore said the deeper losses partly reflected a £10m increase in staffing costs, which included redundancy charges.

Battle of burgers begins to sizzle

By John Willman, Consumer Industries Editor

The burger war on Britain's high streets escalates today with the launch in the UK of the Big King, Burger King's challenge to McDonald's flagship Big Mac.

Burger King, a subsidiary of Diageo, the food and drink group, is number two to McDonald's with half its sales in the US and even less internationally.

But the British-owned fast-food chain has mounted a series of assaults on its American competitor in the US and elsewhere to erode its lead.

Burger King claims the Big King, which has two burgers and two slices of cheese, has taken the US by storm. It has 20 per cent more beef than the Big Mac and 30 per cent less bread, in addition to its extra slice of cheese and "King" sauce.

McDonald's, which has suffered loss of market share and weak profits in the US lately, affects disdain, saying the US launch of the Big King last year made almost no impact on it.

The arrival of the Big King is only one of a series of innovations introduced by the big burger chains. McDonald's has overhauled its food preparation system to replace batch-cooking, with making burgers to order.

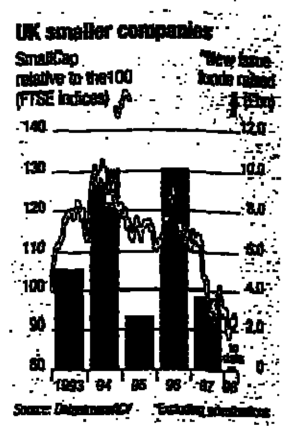
Burger King launched its new crispy fries in the US on January 2, giving 15m bags to customers on what it dubbed Free Fryday. Crispy Fries will be coming to the UK soon.

Dennis Malamatinas, Burger King's chief executive, promises a relentless programme of new products.

"I've doubled the research and development budget in the last 18 months," he says.

COMMENT

Flotations



For a couple of weeks last month, smaller quoted companies were seemingly back in favour. The narrowing gap between the FTSE SmallCap index and the FTSE 100 was mainly a faltering of the latter. Still, optimists seized on it as a sign that market sentiment was turning towards smaller companies. Such a shot in the arm is just what the anaemic new issues market needs. But so far this year, smaller company flotations remain thin on the ground. And longer term, the trend to pan-European investing could reinforce investors' bias towards big companies. Is this a cause for concern? Not immediately. The dearth of flotations is partly because the big pick-up in venture capital-backed buy-outs did not occur until 1996-97. Given typical turn-round times, the resultant wave of exits should not be expected before 1999. Indeed the easy availability of private equity means some companies may postpone or even forgo flotation. And for those that do occur, success is determined largely by sector not size: information technology and pubs, for instance, are currently in vogue.

Nevertheless, stories of less glamorous businesses passing up expansion opportunities are a touch worrying. Some companies have ambitions that bank finance alone cannot support but have no need for a venture capital makeover. And though being acquired may be a route to expansion, that detracts from the vibrancy of the growth company ranks.

Hillsdown Holdings

The agony should be over for Hillsdown Holdings' shareholders on Friday. With its enterprise value of £1.6bn (including about £300m net debt) falling £1bn short of last year's sales, it looks a clear candidate for unbundling. Easiest to split off will be housebuilding and furniture. Conservative valuations produce £450m-£500m combined; in the current climate, more should be expected. More interesting is what will happen to the food businesses, ranging from commodities to well-known brands. Here the disappointment is that operating margins have been stuck at only 5-6 per cent: hence the current weak valuations, averaging 50-60 per cent of their £2.1bn sales. Whatever combination of demerger and trade sale Hillsdown picks, shareholders should see some gains even after expenses and tax.

Pub group seeks Ambishus float

By David Blackwell

The Ambishus Pub company, backed by some of the best known names in the business, is to float on Aim this week.

"The name Ambishus is vulgar, but that is deliberate," said Philip Snook, the non-executive chairman who used to be managing director of The Magic Pub Company. "Our 31 pubs were never going to be enough to satisfy our appetite: we certainly won't be this size for long."

Investors include David Bruce, who started the Firkin chain, Luke Johnson, former chairman of PizzaExpress, and Michael Cannon, who sold Magic Pub to Greene King for £200m ($330m) in 1996. Managing director of Ambishus is Colin Stevens and finance director is Tim Fearns, both veterans of Magic Pub.

The group, which expects a market valuation of about £10m, is raising no new money and none of the existing investors is selling shares. The flotation is aimed at raising the group's profile, and facilitating share-based acquisitions.

The strategy is to go for community-based managed pubs of about 3,000 sq ft, which will not be branded. "We don't want to be fashionable, but we do want to be profitable," said Mr Snook.

In the 14 weeks to February 28 profits were £48,700 on sales of £2.7m. The chain of 31 pubs was put together towards the end of last year with the purchase of 15 pubs from Grosvenor Inns for just under £9m, and the acquisition of 10 pubs and three development sites from Regent Inns for £4.39m.

Rea Brothers is sponsor to the float and trading is expected to start on Friday.

Dresdner trust over-subscribed

By Jean Eaglesham

Dresdner RCM Global Investors will announce today that it has raised its maximum £25m ($42m) target for its new endowment policy investment trust.

The fund manager said the placing, which offered shares in the new trust to institutional investors and shareholders in Dresdner's existing endowment trust, had been "significantly" over-subscribed. It would therefore not be going ahead with the planned offer of shares to the public.

The enthusiastic response to the trust comes when there is a net flow of money out of the £60bn investment trust sector, and many trusts are trading at a discount to the value of underlying assets. "It is encouraging to see that, even if certain parts of the sector are contracting, other areas, albeit specialist ones, are expanding and attracting new investors," said Simon White, head of investment trusts at Dresdner.

Dresdner's ability to attract new money reflects the niche nature of the trust, the Dresdner RCM Endowment Policy Trust 2010. It will be the third managed by Dresdner to invest in traded endowment policies – with-profits endowments that are sold by policyholders before they reach maturity. This second-hand market has grown rapidly, partly fuelled by carpet-baggers hoping for windfall payments from insurers that demutualise. Both Dresdner's existing endowment trusts are trading at a premium.

Scottish Widows revamps teams

By Andrew Edgecliffe-Johnson

Two of the most senior figures at Scottish Widows Investment Management have left suddenly as part of a sweeping management shake-up.

Stan Pearson, head of UK equities, and Ken Robertson, head of bonds, have left following a review of Scottish Widows' fund management arm.

The review, instigated by Orie Dudley since his appointment as chief executive in January, is aimed at improving long-term investment performance.

"We have been doing very well in some areas and not so well in others," Scottish Widows said yesterday.

The review will also mean a change in the role of Leslie Robb, managing director. Mr Pearson will be replaced by Mike Corless, of the existing UK equities team.

The bonds team was being enlarged, Scottish Widows said, under investment director Alan Reid, who has more than 25 years' experience in fixed interest.

Sweden criticised on insurance tax

European court

The European Court of Justice last week delivered another important judgment on discriminatory direct taxation in the context of the single market.

The case concerned the payment of tax on capital life assurance premiums in Sweden. Under Swedish tax law, insurance companies established in Sweden pay a special tax levied as a proportion of their net capital value.

For the policyholder, contributions to life assurance policies with companies established in Sweden or abroad are not tax deductible and the proceeds from policies are not subject to tax.

However, savings in the form of capital life assurance taken out with companies abroad are taxed under the Premium Tax Law.

The purpose of the tax law is to ensure competitive neutrality between savings in the form of capital life assurance taken out with companies in Sweden and savings in the form of similar policies taken out with foreign companies.

It was thus intended to compensate for the effect of the special tax on Swedish insurance companies.

Provision was made in the tax law to mitigate the effect of the tax. A policyholder could request an exemption from or reduction in tax if the insurance company was subject, in the state in which it was established, to revenue tax comparable to that payable by Swedish insurance companies.

The Court was asked whether the tax was compatible with the free movement provisions of the Treaty of Rome.

It said that although, as European Union law presently stood, direct taxation did not fall within the purview of EU law, the powers retained by the member states nevertheless had to be exercised consistently with it.

Since the provision of insurance constitutes a service, Article 59 of the Treaty precludes the application of any national legislation which, without objective justification, impedes a provider of services from actually exercising the freedom to provide them.

In order to enable the objectives of the single market to be attained, Article 59 also precludes the application of any national legislation that has the effect of making the provision of services between member states more difficult than the provision of services exclusively within one state.

Given the Swedish legislation established different tax regimes for capital life assurance policies, depending on whether they were taken out with companies established in Sweden or with companies established elsewhere, the issue was whether the legislation created obstacles to the freedom to provide services and whether such obstacles were justified.

The Court said the application of the tax amounted to an unjustifiable restriction on freedom to provide services for several reasons.

First, in respect of policies

The tax amounted to a restriction on freedom to provide services

taken out with non-Swedish companies, the policyholder had to register with the tax authority and declare premium payments to it.

Those obligations might dissuade interested parties from taking out a policy with non-Swedish companies.

Secondly, in order to obtain an exemption or reduction in the tax payable, the policyholder had to obtain the necessary information concerning the tax paid by the insurance company. Such a requirement was particularly burdensome for the policyholder.

It might also dissuade insurance companies that did not operate in Sweden from offering their services there, since it meant they had to provide potential customers with precise information relating to the tax system applicable to the companies in other member states.

The Court said the system was also operated in an inconsistent and opaque manner.

C-118/96: Safir v Skattemyndigheten i Dalarnas Län, ECJ FC, April 28 1998.

BRICK COURT CHAMBERS, BRUSSELS

EUROPEAN COURT OF JUSTICE REFORM

Europe's paper mountain

The backlog at the European Court of First Instance is getting worse, says **Robert Rice**

In the year since the Labour government came to power in the UK, the clamour for reform of the European Court of Justice has died away.

Before the UK election the Conservative government had been at the forefront of calls for the Court's powers to be curbed. Eurosceptics wanted the Court's wings to be clipped and they accused the Luxembourg judges of being politically motivated.

Had the Conservatives won, the Court would have had a difficult time fending off proposals to limit the retrospective effect of judgments and the damages liability of member states for breaches of European Union law, and to establish a right of appeal against the Court's decisions. Labour's victory, therefore, was almost as welcome on the Kirchberg plateau, as it was at Millbank Tower.

The Court's own agenda for reform focused more on procedural change and the practical problems of cutting delays in disposing of cases. Left to its own devices, the Court enjoyed a quiet but successful year. According to the annual review of the Court of Justice and its sister court, the Court of First Instance (CFI), published last week, the senior Court made steady but significant progress in 1997 in tackling the backlog of cases and in speeding up proceedings.

The ECJ delivered a record number of judgments – 242 compared with 193 in 1996 – and made 135 orders disposing of cases against 100 in 1996. Overall 456 cases were disposed of against 350 in 1996, 445 new cases were received and at the end of 1997 the total caseload of the court stood at 683, which the court says "constitutes a normal amount of work in hand rather than a judicial backlog of alarming dimensions". The Court also delivered 168 preliminary rulings in response to questions submitted by national courts.

In spite of this performance, the average time taken to dispose of cases grew. Appeals from the CFI took on average 17.4 months to deal with against 14 months in 1996; direct actions took 19.7 months compared with 19.6; and preliminary rulings 21.4 months compared with 20.8.

This slight increase was disappointing for the Court, but as Tom Kennedy, head of the Court's press and information division, says: "The important thing is that the volume of work in hand represents about 18 months work. So things are not as bad as they seem."

Yet if most practitioners are happier with the performance of the senior Court, the same cannot be said about the junior CFI. "The ECJ has certainly sharpened up its act. But the CFI is a disaster," says Fergus Randolph, a barrister at Brick Court Chambers, Brussels.

The statistics appear to bear him out. During 1997 the CFI disposed of just 173 cases including about 90 judgments. Given that a high proportion of these cases involved staff – disputes concerning staff employed by the EU's four institutions – this was "less than impressive", according to one Court official.

On average the junior court took 18.7 months to deal with staff cases and a staggering 29.3 months to deal with other cases. At the end of the year the Court had 624 cases in hand compared with 220 the previous year.

But according to Mr Kennedy, there were some extenuating circumstances. Much of the Court's time was spent in preparation for the hearing of four series of competition cases (82 cases in all) involving alleged cartels in cartonboard, cement, steel beams and PVC. All involved a mass of documentation, which had to be translated, and called for the deployment of huge resources. These cases have since been heard, Mr Kennedy stresses.

During the year the CFI also received 295 cases from disgruntled customs agents claiming damages against the European Commission for failure to protect their jobs, which were lost on completion of the single market. These cases are described by lawyers as "very weak" and many are probably inadmissible. The Court's workload could therefore fall by almost 300 cases overnight, Mr Kennedy explains.

Finally, there are between 70 and 80 milk quota cases to be dealt with out of the many actions for damages brought by farmers who claim they were temporarily prevented from carrying on their businesses by the quota system.

But in spite of these exceptional circumstances, the CFI clearly has problems. There is talk in Luxembourg of infighting among the CFI judges and of petty rivalries with the judges of the senior court.

Delays are getting worse. The CFI's judges believe practitioners must take some of the blame for inundating the Court with unnecessary documentation, all of which has to be translated at vast expense.

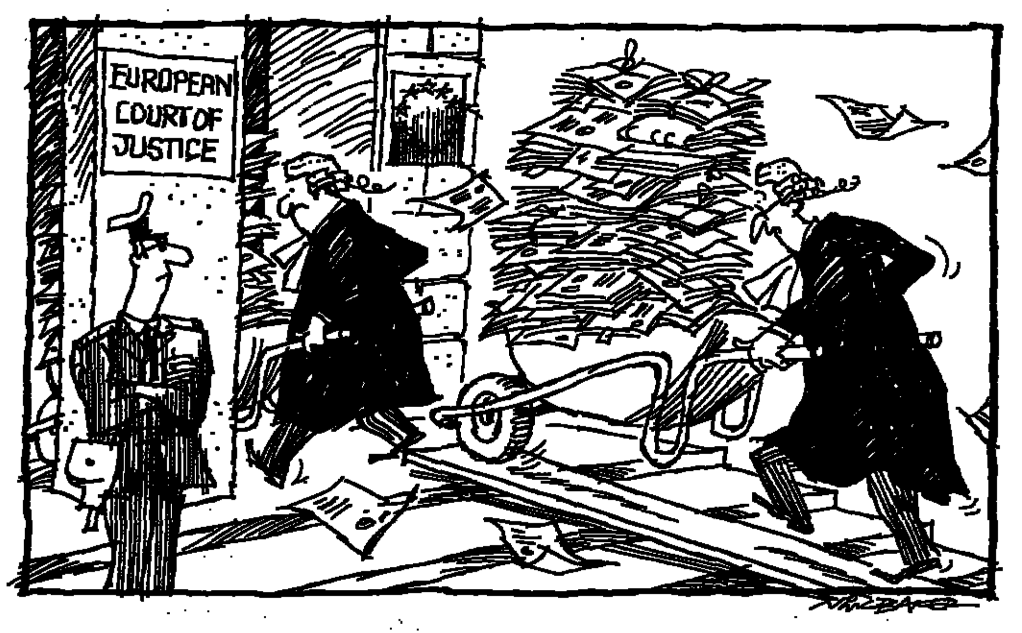
Mr Randolph accepts that practitioners could do more to thin the documentation presented to the Court in certain cases, but he said: "They must also appreciate that it is a two-way street. The court must do something."

Numerous suggestions have been made to resolve the problem, none of which seems satisfactory to both the Court and its users. The CFI has suggested that staff cases should be heard by one judge sitting alone, but this is opposed by the Council of the Bars and Law Societies of the European Communities.

Practitioners have suggested that a specialist tribunal should be set up to deal with staff cases, freeing the CFI to deal with state aid and competition issues. Another suggestion is the appointment of six more judges enabling the Court to create three more two-judge chambers.

All of this takes money, however, plus the fact that almost any change needs the unanimous consent of the Council of Ministers, which for political reasons may not be forthcoming.

Although the majority of member states would favour measures to cut delays in Luxembourg, many lawyers and Court officials believe some are happy to see the whole European justice process slowed down. Helmut Kohl, Germany's chancellor, has said too many cases are referred to Luxembourg for preliminary rulings, particularly in the social field. The signs are not encouraging.



LEGAL BRIEFS

Dispute specialist joins Freshfields' New York office

Freshfields, the UK international law firm, has appointed Lucy Reed, a US lawyer specialising in international dispute resolution, as counsel in its New York office.

For the past two years, she has been General Counsel to the Korean Peninsula Energy Development Organisation (KEDO) in New York. KEDO is the international organisation created by the governments of the US, Japan and the Republic of Korea, and later joined by the European Union, to resolve the nuclear crisis in the Democratic People's Republic of Korea.

Before her post at KEDO, Ms Reed worked for several years in the US State Department where she acted as US agent to the Iran-US Claims Tribunal and in private practice in Washington, New York and London. She will focus on international commercial arbitration and public international law disputes.

HK expansion at Cameron McKenna

Cameron McKenna is expanding its Hong Kong office by launching a recovery and restructuring practice. The move is a direct response to the crisis in the Asian financial markets and the practice will be headed by partner David Kidd, a corporate recovery lawyer. Mr Kidd acted for the administrators of Atlantic Computers and led the Cameron McKenna team advising the administration of Polly Peck International, the failed fruit to electronics group. He will be assisted initially in Hong Kong by partner Dan Hamilton. Mr Hamilton will return to London in the autumn.

Launch of first legal practice NVQ

The Law Society will this week launch the first legal practice National Vocational Qualification in conjunction with the Institute of Legal Executives. The NVQ, aimed at people who work in the law, but lack a formal qualification, is unique in being the first NVQ to include a written test.

PEOPLE ON THE MOVE

CLR appoints Furse as group chief executive

Clara Furse, the former global head of futures and options at Union Bank of Switzerland, is to join Credit Lyonnais Rouse, the derivatives arm of France's Crédit Lyonnais bank, as group chief executive.

When she joins today she will fill a position that has been vacant since Bill Bradwell left CLR last year, after a reorganisation of the business into three product divisions: financial markets headed by Francis Amman, commodities headed by Andy Gooch, and cash markets headed by Alex Ladouceur.

Furse, 40, was born in Canada of Dutch parents, and educated in Colombia, Denmark, and the UK.

In the early days of the London International Financial Futures Exchange, she traded gilts futures for Phillips & Drew, the stockbroker later taken over by UBS, and she has spent 15 years with the group. She has been a Liffe board member since 1990 and is deputy chairman.

Liffe intends to make its chairmanship a full-time executive role, so her appointment at CLR appears to rule her out of that position.
George Graham, London

Furse moves to CLR

Baldock moves to Bentley

Michael Baldock is moving from SBC Warburg Dillon Read to Bentley Healthcare, the operator of Aids clinics headed by maverick healthcare entrepreneur Bernard Salick.

Baldock, 34, will be executive vice-president and chief strategic officer at Bentley. He has been managing director and head of global pharmaceuticals at SBC Warburg Dillon Read. He joined SG Warburg in 1988.

Salick said: "Michael Baldock brings a broad array of financial and strategic development skills combined with unique contacts in both the governmental and international markets and long-term associations with many of the world's largest pharmaceutical companies."

He added: "Michael will be a key member of Bentley Health Care's senior management team."

At Warburg, Baldock specialised in mergers, acquisitions and strategic financial advice for international pharmaceutical companies.

Before joining Warburg, he was in the mergers and acquisitions department at Drexel Burnham Lambert. He is a 1986 graduate of Harvard College.

Salick, 58, founded Salick Healthcare, which runs a chain of cancer and kidney dialysis clinics. He sold the company to Zeneca and then resigned from Zeneca.

In February, Bentley Health Care announced its initial affiliation with New York's Montefiore Medical Center to set up a network of outpatient cancer and Hiv/Aids diagnostic and treatment centres in the Bronx, Manhattan and Westchester County.
Daniel Green, London

Hunter joins Seagram

Seagram, the Canada-based drinks and entertainment group, has bolstered its spirits and wines division with the appointment of a former Coca-Cola executive as chairman.

John Hunter, once tipped to succeed the late Roberto Goizueto as chairman and chief executive of Coke, has been a part-time adviser to Seagram for months.

Hunter retired from Coke in 1996 as executive vice-president and chief operating officer, two years after Doug Ivester emerged as the likely successor to Goizueto.

As head of the group's international operations, he had helped build Coca-Cola's sales in emerging markets worldwide.

After the merger of Guinness and Grand Metropolitan last year to form Diageo, the industry has been buzzing with rumours of further restructuring involving the Seagram drinks interests.

The creation of a chairmanship and the recruitment of an individual of Hunter's pedigree signals the group's commitment to remaining in the business," said one analyst.

Steve Kalagher remains president and chief executive of the Spirits and Wine division.
John Willman, London

Bradley joins Anglogold

When Bobby Godsell, chief executive of South Africa's Anglogold – the world's biggest gold mining company being formed out of Anglo American's gold interests – announced the new group's board last month, he was praised for advancing black empowerment but questioned about the lack of women directors.

He has answered that criticism by appointing Elisabeth Bradley, vice-chairman of Toyota South Africa and chairman of Wesco Investments and Metair Investments, as Anglogold's seventh independent director.

Godsell said he wanted her for her general commercial experience and knowledge of Japanese markets and Japanese productivity management. South Africa's gold mines are adapting rapidly to the low gold price, and Bradley said: "Unlike the mining industry, the motor industry has always been a highly competitive business, which has had to cut costs and add value in order to survive."

Godsell had already impressed investors by persuading James Motlatsi, president of South Africa's National Union of Mineworkers, to serve as one of Anglogold's directors – a step which Godsell acknowledged was both unusual and risky. Motlatsi insisted he was representing labour, not himself, and said his remuneration would go to the NUM.

The other independent directors named so far are Donald Ncube, a leading black businessman; Colin Brayshaw, formerly of Deloitte and Touche; Russell Edey of N.M. Rothschild & Sons; Frank Arisman, the New York-based commodities and foreign exchange expert; and Victor Fung, the Hong Kong businessman.
Victor Mallet, Johannesburg

MOVING PLACES

● Marc-Andre Charlebois has been named the new president and chief executive of the CANADIAN NEWSPAPER ASSOCIATION. Charlebois comes to the CNA from the Canadian Urban Transit Association where he served as president. He succeeds Richard Dicerni who now serves as senior vice-president.

● COCA-COLA ENTERPRISES has named president and chief operating officer Henry Schimberg to the additional post of chief executive. As chief executive, Schimberg, who will step down as chief operating officer, succeeds Summerfield Johnston Jr, who will remain chairman of the company.

● Nobert Palowski of Bayerische Hypotheken-und Wechselbank (Munich) has been appointed by the supervisory board at BANKGESELLSCHAFT Berlin to its management board. He will be in charge of risk management.

● HSBC SECURITIES AUSTRALIA, a unit of HSBC Holdings, has appointed Bruce Bell chief executive officer. Bell succeeds Ralph Shipley and has previously been the investment bank's head of Australian sales in London, and prior to that was a director of broker ANZ Securities.

● OKI ELECTRIC has appointed senior managing director Katsumata Shinozuka president, replacing Shiko Sawamura, who will be appointed chairman. Shinozuka joined Oki Electric in 1963 and was most recently responsible for the company's information/telecom systems development.

● Shareholders of Taiwan's GRAND COMMERCIAL BANK have approved the appointment of C. Y. Kao as the new chairman. Kao is the head of President Enterprises and member of the central standing committee of the nationalist ruling party, the Kuomintang. Kao is taking over from Wu Hsiu-chi, who is retiring, but will remain the bank's honorary chairman.

● MOTOROLA has named Merle Gilmore deputy to the chief executive officer for Motorola's enterprise-wide communications business plan. Gilmore was previously an executive vice-president of the company's Europe, Middle East and Africa region. Arnold Brenner, also an executive vice-president and president, global government relations and standards, will temporarily assume Gilmore's duties as a regional president.

● FLUOR has reached outside its ranks for new leadership, announcing that Shell Oil president Philip Carroll will become Fluor's new chairman and chief executive this summer. The appointment of Carroll, a 37-year oil industry veteran, marks the first time in its 109-year history that Fluor has not picked a chairman from its executive ranks. Carroll, 60, will replace Leslie McCraw, the company's longtime chairman and chief executive. Carroll assumes his new position on July 1, a day after retiring from Shell.

● FIRST OF AMERICA BANK has named Paul Clark president and chief executive. First of America, which was acquired recently by National City, said Clark was also named an executive vice-president of National City. First of America will become NATIONAL CITY BANK OF MICHIGAN/ILLINOIS. Clark will be responsible for National City's operations in Michigan and Illinois. Clark, along with National City chairman and chief executive David Daberko and vice-chairman Vince DiGirolamo, were also named to the First of America board. Richard Chormann remains chairman of First of America Bank. He was named a vice-chairman of National City when the merger was announced.

● The council of management of the URANIUM INSTITUTE has confirmed the election of Jean-Pierre Rougeau, senior vice-president corporate strategy and international development of Cogema, France, as chairman of the Institute for the next two years. Rougeau, who had been vice-chairman, replaces Tokio Kanoh, former executive vice-president of Tokyo Electric Power, Japan.

● LAMBERTO ANDREOTTI, 47, has been named vice-president and general manager, Italy and European Oncology, Worldwide Medicines Group, Bristol-Myers Squibb Company. He will be based in Paris and Rome. Andreotti joins Bristol-Myers Squibb from Pharmacia & Upjohn, where he was most recently senior corporate vice-president, responsible for Italian operations and worldwide oncology activities. Per-Olof Wallstrom, 48, has been promoted to president, northern, central and eastern Europe, Worldwide Medicines Group.

● CLUBS INTERNATIONAL has announced the appointment of travel industry veteran Ann Adenius as vice-president, sales and marketing worldwide. She most recently served as a director, strategic alliances for Disneyland Paris.

● BARCLAYS GLOBAL INVESTORS has appointed Nigel Williams head of business development for Barclays Global Investors, Europe (excluding all the Netherlands and Belgium).

Crude slips ahead of production meeting

MARKETS REPORT

By Nikki Tait in Chicago

Crude oil futures slipped yesterday as the market waited to see whether a mooted meeting between Saudi Arabia, Venezuela and Mexico this week would lead to further production cuts.

Saudi Arabian oil minister Ali al-Naimi, while visiting Washington, said a meeting was likely to go ahead.

This emerged before the oil market opened in New York, but traders were hesitant and Mexico indicated that a meeting was yet to be arranged.

There were indications that Saudi Arabia, at least, would wish to see estimates for production by Opec members in April, which are also due to be released this week, before taking further action to help bolster prices.

Last month, a mixture of Opec and non-Opec countries, such as Norway, Egypt and Oman, pledged to reduce global output, in an effort to stabilise the markets.

Opec ratified a 1.25m barrel a day reduction, and other cuts could take this to nearly 2m barrels but there has been considerable uncertainty over how quickly these promised cuts might affect the current surplus, given the level of stocks.

Iran has reiterated its call for more cuts. Oil Minister Bijan Namdar Zanganeh said the decrease in production world-wide wasn't sufficient to stabilise oil prices. He added that Iran was willing to reduce its output beyond the 140,000 barrels per day agreed to at the Riyadh meeting of March 22, the Iran Daily newspaper said.

On the New York Mercantile Exchange, the June crude oil contract was trading at around $15.85, down about 28 cents.

The market had rallied strongly at the end of last week, when news of the Saudi/Venezuela/Mexico meeting first surfaced, and despite yesterday's setback, most traders expect that to provide some floor to the market in the next few days.

Gasoline prices also fell, with the June contract losing 6.9 cents to 53.60 cents, on news that a cracker on the East Coast is due to start up again this week putting pressure on prices.

In the Midwest's grain markets prices began on a firmer note. Wet weather swept over the region late last weekend and during the weekend, leading to possible delay to the key planting season.

The benefit was felt most strongly in corn, where the July contract gained 3 cents to $2.54, and the September 4 cents higher, to $2.72.

Soyabeans also shared in the more bullish tone, with the July contract gaining 1 cent to $6.426, and the August contract adding 2 cents, at $6.39.

Oil groups test limits off west Africa

Region offers enormous potential but poses technical challenges, writes **Robert Corzine**

Recent oil discoveries in the deep water off west Africa have confirmed the area's potential as a world class oil-producing region, but company executives and engineers say developing the discoveries will test the industry's technical resources.

A recent report from Wood Mackenzie, the Edinburgh-based consultants, said 14 potentially commercial deep water discoveries were made off west Africa in 1997, with estimated recoverable reserves of 2.8bn barrels.

Three finds off Angola – Elf Aquitaine's Dalia field and Chevron's Quito and Landana discoveries – accounted for 94 per cent of the reserves found last year, according to the report.

Several more big discoveries have been announced this year, prompting John Browne, chief executive of British Petroleum, to declare that offshore Angola has "enormous potential". He said the area has all the attributes of a "truly world class oil province".

Industry analysts speculate that deep water off west Africa may produce as much as 1.3m barrels a day by 2006 or so, mainly from "tertiary plays". These result from underwater rivers that cut channels into the sea bottom millions of years ago.

Geologists are keen to discover evidence of ancient rivers that laid down massive amounts of sand and short-lived algae in offshore "fans" that some experts believe may extend as far as 400 miles offshore.

Wells in the most prospective parts of such areas tend to flow at high rates, one of the most prized attributes of the deep water areas.

The scale of the proposed developments off west Africa is highlighted by Elf's activities on Block 17 off Angola, where the Girassol field in 1,400m of water will be one of the first deep water discoveries to be developed.

Jean Luc Vermillion, Elf's exploration director, believes first production may be possible by the end of 2000, although Elf is only now preparing to award detailed engineering and developing contracts.

The challenge of such developments has led the French group, which has two other big discoveries on the same block, to devote more of its research and development efforts to understanding deep water reservoirs.

A growing number of the 1,200 or so scientists and engineers at Elf's research centre at Pau, south-western France, are working on such developments.

Unlike many other leading international oil companies, Elf did not scale back its in-house R&D capabilities in the early 1990s, although that had more to do with the political sensitivities in France than to any insight into the future scale of deep water developments.

Nonetheless, the policy is now paying dividends, according to Gilles Rappeneau, Elf's senior executive in charge of technology, as the company is not suffering from a shortage of experts that has plagued other big oil groups.

Exploiting deep water off west Africa poses special technical challenges, however. Unlike the Gulf of Mexico, west Africa does not have an extensive shore-based support industry. Nor does it have a nearby market for natural gas, a by-product of oil extraction and one of the problems facing operators in the region.

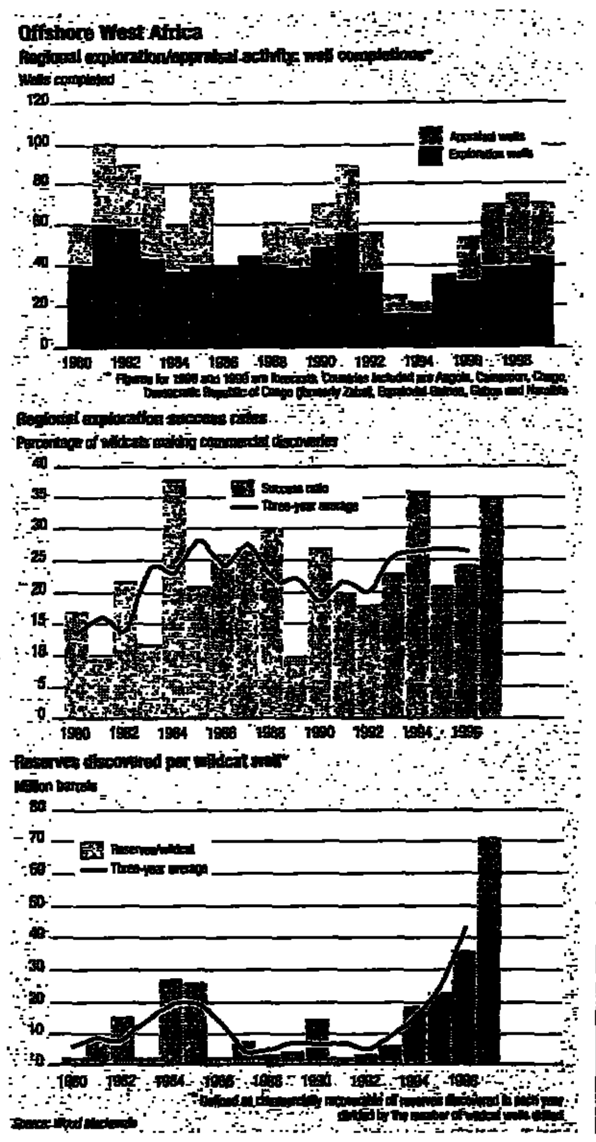
Elf's experts say Block 17 may have too much gas to reinject into the oil reservoirs to maintain pressure. Given environmental opposition to gas flaring, Elf is studying the possibility of injecting surplus gas into a non-oil bearing reservoir on Block 17. But that may not be possible at other deep water fields, and solving the gas problem is expected to become a pressing issue in coming years.

Elf believes improvements in the interpretation of seismic surveys will be critical to deep water success. "We think that seismology is the key," says Mr Rappeneau.

The economics of deep water extraction underlines the importance of seismic interpretation. "Drilling costs in the deep water are high so you need to minimise the number of wells," says Jemel El Aydouni, a seismic expert at Pau. "The key then is to maximise the productivity of individual wells, and that means you have to know the best place to send the drill bit."

Two technical challenges are foremost in the minds of the explorers: selecting the best potential areas from masses of seismic data; and developing software to help geologists differentiate between oil, gas and water before drilling takes place.

Although the sea conditions and climate of west Africa are relatively benign, Elf's experts say the water is "full of energy," with constant, though small, waves. But they say the depth of recent discoveries poses the biggest challenge: "The oil service industry is pushing the limits of existing equipment at 2,000m."



NEWS DIGEST

COAL

Wankie Colliery makes provisions for Zisco debt

Wankie Colliery, Zimbabwe's sole coal producer, said it doubted state-owned Zimbabwe Iron and Steel Company (Zisco) would repay its debt to the mine, which more than doubled to Z$153.45m (US$9m) in the year to February.

In a statement accompanying Wankie Colliery's latest accounts, Ngoni Kudenga, chairman, said the government had urged the company to use restraint in calling in the Zisco debt and the management had therefore decided to provide fully for it.

"All efforts by Zisco to raise finance for working capital to pay off the debt during the financial year were unsuccessful," Mr Kudenga said. "In the circumstances the directors were unable to ascertain with confidence that the outstanding debt will be collected or whether Zisco will be able to sustain the weekly cash purchases," he said, referring to a payment arrangement that also failed.

The Zimbabwean government has declared the loss-making Zisco, which runs sub-Saharan Africa's second largest steel works, a strategic company and has contracted Chinese and German companies to help turn it round.
Reuters, Harare

GRAINS AND FEEDS

Strike hits Danish trade

Danish exports of grains, mainly wheat and barley, as well as imports of feeds, mainly soyabeans, were at standstill for the eighth day running yesterday, according to a senior grains trade official.

A widespread strike in Denmark has closed the country's ports, and exports and imports had been "at a complete standstill" since last Monday, said Sven Trunshoej, managing director of the Danish Feed and Grain Trade Association.

Danish exports of wheat and barley total some 100,000 tonnes each a month on average, for a combined annual grains exports volume of about 2m-2.5m tonnes.
Reuters, Copenhagen

OIL PIPELINE

Iran 'best route to Caspian'

Bijan Namdar Zanganeh, Iran's oil minister, said in remarks published yesterday that Iran offered the most financially feasible oil pipeline route linking the resource-rich Caspian Sea to international markets.

"Unless there are political considerations, all the talk about Caspian underwater pipelines doesn't make economic sense. Estimates for the construction of these pipelines are about $3bn, where the construction of pipelines via Iran is close to $300m," Mr Zanganeh said.

The US, which is seeking to isolate Iran from the recent Caspian Sea oil rush in Kazakhstan, Turkmenistan and Azerbaijan, has pushed for the adoption of sub-sea routes connecting the east of the sea to the West, thereby bypassing Russia to the north and Iran to the south.
Reuters, Tehran

JOTTER PAD

US COMMODITY PRICES

HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
May	84.60	-	85.20	84.10	1,217	3,312
Jun	84.95	-0.10	84.90	84.30	507	3,577
Jul	85.20	-0.20	85.80	84.45	6,850	31,315
Aug	84.50	-0.30	84.70	84.70	21	1,785
Sep	84.50	-0.10	84.60	84.10	145	6,536
Oct	84.10	-0.40	-	-	3	1,490
Total					9,168	88,751

Precious Metals continued

GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	304.3	+1.8			1	1
Jun	305.4	+1.8	306.9	304.1	47,253	86,839
Aug	307.6	+1.8	309.0	306.5	2,808	10,484
Oct	309.6	+1.8	310.5	309.0	194	5,272
Dec	311.6	+1.8	313.1	310.8	458	17,682
Feb	313.3	+1.8	-	-	524	8,995
Total					51,590	175,214

PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	395.0	+1.5	398.0	391.5	2,195	12,643
Oct	392.5	+2.5	394.0	390.0	43	722
Jan	388.5	+2.5	-	-	4	46
Apr	386.0	+2.5	-	-	1	11
Total					2,243	13,423

PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	300.50	-4.00	307.00	296.00	350	3,199
Sep	260.50	-4.00	270.00	260.20	101	1,367
Dec	250.50	-4.00	-	-	-	291
Total					451	4,857

SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
May	621.2	+10.4	621.5	610.0	400	2,161
Jul	624.7	+9.4	627.0	612.5	10,195	43,543
Sep	625.7	+9.4	622.5	613.0	303	6,806
Dec	625.7	+9.4	627.0	615.0	459	12,331
Jan	625.6	+9.4	-	-	-	15
Mar	624.8	+9.4	-	-	15	2,610
Total					11,336	75,381

ENERGY

CRUDE OIL NYMEX (1,000 barrels. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	15.87	-0.28	16.10	15.74	91,541	118.0k
Jul	16.50	-0.22	16.63	16.33	41,238	62,840
Aug	16.91	-0.14	17.00	16.75	13,187	39,527
Sep	17.14	-0.13	17.22	17.02	8,143	28,777
Oct	17.36	-0.08	17.38	17.22	2,566	19,735
Nov	17.45	-0.15	17.45	17.45	593	11,295
Total					177,381	460,983

HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	45.40	-0.38	45.80	45.00	20,971	46,974
Jul	46.15	-0.39	46.50	45.90	7,348	19,440
Aug	47.10	-0.34	47.30	47.05	1,004	13,704
Sep	48.10	-0.24	48.25	48.00	719	12,034
Oct	49.20	-0.04	49.30	49.10	999	8,632
Nov	50.00	-0.14	50.10	50.00	514	8,560
Total					34,948	165,812

NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	2.220	+0.018	2.220	2.110	31,069	36,107
Jul	2.260	+0.004	2.260	2.150	8,096	24,656
Aug	2.310	+0.010	2.310	2.205	5,132	20,674
Sep	2.330	+0.010	2.330	2.220	3,298	15,722
Oct	2.360	-	2.390	2.270	2,271	15,422
Nov	2.500	-	2.510	2.420	1,543	10,836
Total					61,823	231,835

UNLEADED GASOLINE NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jun	53.55	-0.74	54.30	53.40	25,135	54,018
Jul	54.40	-0.79	55.20	54.40	7,776	19,403
Aug	54.50	-0.64	55.15	54.50	2,844	14,690
Sep	54.15	-0.37	54.40	54.05	1,408	13,655
Oct	53.20	-0.05	53.20	53.00	249	4,348
Nov	52.50	-	-	-	1	635
Total					37,440	112,292

FUTURES DATA
All futures data supplied by CMS.

GRAINS AND OIL SEEDS

WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	292.75	+3.75	295.00	289.75	6,228	3,929
Jul	303.50	+2.50	306.50	300.50	17,727	73,488
Sep	313.25	+3.00	315.50	310.00	2,531	14,897
Dec	326.50	+2.50	330.00	324.25	2,092	22,212
Mar	337.75	+2.50	340.00	335.25	152	3,476
Jul	348.50	-	-	-	35	201
Total					28,880	118,441

MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	244.00	+1.00	248.00	243.75	12,559	12,221
Jul	253.00	+2.00	256.00	251.50	48,498	150,171
Sep	259.50	+3.25	263.00	258.00	2,976	39,219
Dec	266.00	+3.75	268.25	264.00	17,083	119,161
Mar	273.50	+3.25	275.50	270.00	526	10,663
May	278.00	+3.75	281.00	278.00	446	1,446
Total					75,187	357,657

SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
May	647.25	+0.75	652.50	642.75	6,016	9,882
Jul	642.50	+0.75	647.50	638.50	29,175	72,207
Aug	638.75	+0.75	645.00	636.50	1,816	13,839
Sep	627.00	+2.50	630.00	622.50	626	3,494
Nov	619.25	+2.25	623.50	615.00	10,745	43,779
Jan	627.50	+2.75	630.50	623.00	226	2,489
Total					48,482	147,683

SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	28.62	+0.09	28.85	28.48	5,843	8,857
Jul	28.89	+0.09	29.20	28.78	15,892	63,708
Aug	28.98	+0.12	29.23	28.85	2,492	18,721
Sep	28.91	+0.11	29.20	28.85	278	11,547
Oct	28.70	+0.13	28.90	28.57	1,146	7,321
Dec	28.49	+0.04	28.81	28.38	3,123	25,195
Total					28,350	157,716

SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
May	153.9	-1.0	157.2	153.4	5,701	6,986
Jul	157.9	-0.8	161.0	156.8	12,601	61,326
Aug	159.3	-0.2	162.0	157.8	1,704	18,774
Sep	160.2	+0.1	162.0	158.6	692	12,623
Oct	160.3	+0.8	163.0	158.8	1,227	8,867
Dec	162.6	+0.9	164.5	161.0	5,536	22,003
Total					28,161	134,384

SOFTS

COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1686	+14	1688	1686	3	636
Jul	1680	+8	1693	1670	2,228	25,169
Sep	1698	+7	1700	1689	112	12,167
Dec	1724	+7	1720	1718	147	15,817
Mar	1752	+7	-	-	53	9,827
May	1770	+7	-	-	-	3,767
Total					2,590	73,349

COCOA (ICCO) (SDR's/tonne)

May 1	Price	Prev. day
Daily		1318.12

COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	128.90	+0.15	128.90	123.00	339	1,498
Jul	127.85	+0.90	128.00	124.80	7,637	17,218
Sep	125.55	+1.65	126.00	123.00	2,211	7,154
Dec	122.15	+0.90	122.25	120.25	1,811	5,922
Mar	119.60	+0.50	119.50	118.25	548	1,967
May	118.60	+0.50	118.00	118.00	358	794
Total					12,403	34,975

COFFEE (ICO) (US cents/pound)

May 1	Price	Prev. day
Comp. daily	n/a	114.27
15 day average	n/a	119.80

SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	8.49	+0.02	8.53	8.40	11,337	89,419
Oct	8.77	+0.02	8.80	8.71	3,466	50,747
Mar	9.28	+0.01	9.32	9.22	2,230	34,322
May	9.32	-0.01	9.33	9.30	67	3,619
Jul	9.35	-0.01	9.37	9.32	60	3,816
Oct	9.34	-0.01	9.41	9.36	136	3,171
Total					17,395	175,364

COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	62.50	-1.25	62.85	62.50	54	53
Jul	64.37	-0.79	64.95	64.35	4,455	31,735
Oct	67.25	-0.75	67.75	67.25	155	3,803
Dec	68.75	-0.52	69.15	68.71	2,449	32,587
Mar	70.20	-0.45	70.50	70.20	157	7,177
May	70.93	-0.42	71.25	71.20	87	2,974
Total					7,415	83,212

Softs continued

ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	103.25	+1.25	103.50	100.20	228	2,441
Jul	107.65	+1.85	108.00	103.90	3,553	17,193
Sep	110.75	+1.85	108.00	107.20	314	5,375
Nov	113.30	+2.10	111.80	110.00	226	3,684
Jan	115.10	+1.65	-	-	116	1,571
Mar	117.45	+1.40	-	-	24	919
Total					4,471	31,780

MEAT AND LIVESTOCK

LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	69.325	-0.100	69.700	69.225	7,278	42,652
Aug	66.950	-	76.175	66.800	3,611	23,281
Oct	68.675	+0.050	68.825	68.550	1,549	13,617
Dec	70.400	+0.025	70.600	70.350	213	4,821
Feb	71.425	+0.075	71.450	71.300	81	1,504
Apr	72.350	+0.050	72.425	72.300	27	621
Total					12,748	86,467

LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	61.475	+0.275	61.850	61.100	3,217	14,634
Jul	61.450	+0.400	61.750	61.150	954	6,127
Aug	59.150	+0.450	59.450	58.850	606	4,101
Oct	54.450	-0.075	54.750	54.200	353	3,519
Dec	54.825	+0.100	55.050	54.625	38	3,294
Feb	57.950	-0.300	58.500	57.800	14	610
Total					5,192	32,841

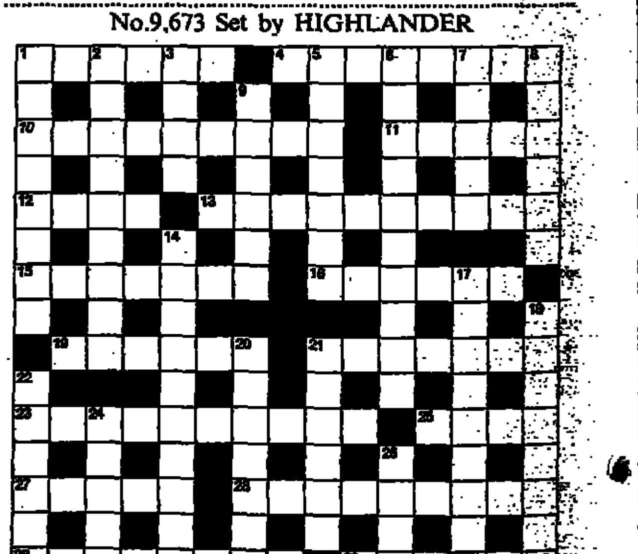
PORK BELLIES CME (40,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
May	60.150	+0.950	61.000	58.650	698	1,813
Jul	58.050	+0.300	59.400	56.600	1,432	4,274
Aug	55.000	+0.025	57.100	54.800	334	1,034
Feb	48.500	+0.400	49.000	-	3	26
Mar	46.200	+0.150	47.000	46.100	91	215
Total					2,466	7,384

VOLUME DATA
Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open interest totals are for all traded months.

CROSSWORD

No.9,673 Set by HIGHLANDER



ACROSS
1 Poor Whiskey – a revolutionary study (6)
4 Do go – New Testament can create friendly feelings (8)
10 Promise to look after the body (9)
11 Yarn twisted only on middle of Jenny (5)
12 Cut supermarket charges to cover it (4)
13 Booty left on board in wet blanket (10)
15 Might be hunted as game when young (7)
16 Weep, young man; it's all about aggressive teenagers (6)
19 Change into an oil (6)
21 Rural Italy, say (7)
23 Poison two women (10)
25 Pretty reasonable (4)
27 Time to muse (5)
28 Departs shortly before virgin gets changed for stripping (9)
29 Sucking up to one at death's door (8)
30 As a bowler, begin to make progress (4,2)

DOWN
1 Gambling permitted during journey (6)
2 It's taken away CID's job (9)
3 Archbishop's one way to get out (4)
5 Weight problem? Don't stand inside, follow instructions (7)
6 Food for Scandinavian in Oxford boat? (6,4)
7 Liverpool gives up housing accommodation for limbs (5)
8 One might swim one, given a period of time (8)
9 Bird publication cut down on jumbled type (6)
14 Compulsory and essential part of the score lines (10)
17 Boycott gets a score and it's out! (9)
18 Most abundant element in spa resort – news in brief (8)
20 Stepped on wrong end but walked on (7)
21 Preserve fresh pea as something savoury to eat (6)
22 Sailor posted missing (5)
24 Left here originally as a residence for Dalai Lama once (5)
26 Lift working provided it's very dry (4)

Solution to Saturday's prize puzzle on Saturday May 16.
Solution to yesterday's prize puzzle on Monday May 18.

FINANCIAL TIMES

EURO STATISTICS: a guide to the FT's new service

Monetary union bears brand-new family of figures

Peter Martin outlines why the newspaper is providing fresh information for investors facing a new single currency and its significance for the equity, bond and currency markets

For the Financial Times, today is the day that Europe's single currency starts to become real. After years of charting the preparations and debate, we begin daily publication of statistics that illustrate the new euro world - even before it comes officially into existence in January 1999.

We are able to do this because last weekend's European Union summit finally confirmed that 11 countries will join Emu at the outset. It also fixed the bilateral exchange rates at which their currencies are supposed to be locked in January - although market pressures could change this.

This is therefore a good moment to start publishing data on Euroland's equity, currency and fixed income markets, including a "synthetic" value for the euro itself. For details on how we have done this, and an outline of the tables we will be publishing every day on our new Euro Prices page, see the other articles in this special section.

The "euro" prices we are publishing remain hypothetical, however – so for the moment we will also be using Ecus for some of the tables on this page. The Ecu is a basket of most EU currencies, including three which will not be members of the euro. It is due to convert one-to-one into the euro in January 1999, and thus provides a helpful proxy in this interim stage.

The impact of the euro goes beyond the mere creation of a new unit of account, however. Because it is a crucial step in the European Union's completion of a single market – in financial services as well as in goods – it will bring about profound changes in the way Europe does business. Capital markets, both primary and secondary, will be particularly affected.

Investors, from within the euro region and without, will change the way they value securities. Companies will change the way they do business, and in particular the way they manage their financial exposures. New, Europe-wide markets will come into existence, offering both issuers and investors a wider, deeper choice.

These changes will not happen instantly – but some of them are already under way, and others will follow. Last weekend's fixing of bilateral exchange rates is an essential step in this process.

The new financial statistics that the FT will be publishing every day, and the euro zone economic statistics to be published every week, will, we hope, be a helpful guide to the stages of the transformation of European financial markets.

Comments and queries about the FT's new statistics should be addressed to: Martin Dickson, Financial Editor, FT, Number One Southwark Bridge, London SE1 9HL. E-mail: martin.dickson@ft.com

Different markets will be affected in different ways:

Equities

Europe's equity markets are already growing closer together. The advent of the euro will be a decisive moment, however, for investors in member countries.

They will have, in effect, a much wider home market; their frame of comparison is no longer their national market, but the whole euro zone. They will be interested, therefore, in industry sectors that span the whole region. Investors from outside the region will follow suit.

A new "super-league" of big European companies is already emerging in anticipation, captured in the FTSE Eurotop 300 index and other rival pan-European indices.

This super-league will not, however, be confined to euro zone countries – it will embrace companies in other European markets (such as the UK and Sweden) which are likely at some stage to enter Emu. From today, we will be publishing a daily listing of FTSE Eurotop stocks, priced in Ecus and arranged by industry sector.

From January 1999, we will switch these prices to euros. The traditional listing of European stocks by country, in local currencies will continue on other pages.

Bonds

Existing government bond markets will convert to euros at different paces, depending on individual government decisions. However, once national control over monetary policy disappears – definitively in January 1999 and de facto from last weekend – the way markets price these securities will change.

Since there is no possibility of currency depreciation, prices will no longer reflect that risk. Instead, they will adjust to price in the risk of default, something that was an impossibility as long as governments could always print enough of their own currency to meet their obligations as they fell due.

We are therefore publishing tables which compare euro zone government bonds, showing the way that spreads are changing.

A key statistic for the market will be the yield curve on the benchmark Euro government bond. That curve, and the level of euro interest rates, will be influenced by the actions of the European Central Bank, in Frankfurt. Its policy-makers will be watching a new series of economic indicators which take the temperature of the euro zone. A new FT table of European economic indicators, to be published every Tuesday, will capture those statistics.

As the euro takes hold, government bond market conventions, currently widely different, will move into line. New euro derivative instruments – which we will carry on the Euro Prices page as they are introduced – will also contribute to making the government bond market wider, deeper and more liquid.

Europe's corporate bond markets, which have lagged behind their government equivalents, and behind the US corporate bond market, will follow suit.

Currencies

The euro will take its place as one of the big three world currencies, alongside the dollar and the yen. It will become one of the yardsticks for non-member currencies such as sterling. The Euro Prices page will reflect these new relationships.

The eight months between now and January 1999 are an interim phase for the euro. In some ways they are a dress rehearsal, since today's synthetic euro prices are not directly comparable with tomorrow's real ones. But in other respects, today's euro and Ecu markets are the real thing, since the constituent currencies and economies of the euro zone are already moving in lock-step.

The relationships – within the euro zone and outside it – which are captured in the new Euro Prices page will soon be as familiar to FT readers as today's D-Mark or franc equivalents. The euro era has begun.

CONVERSION RATES

Giving currency a bit of history

Wolfgang Münchau, Economics Correspondent, outlines how and why a 'synthetic' euro exchange rate will be calculated

Last weekend's announcement by European Union leaders of the bilateral conversion rates for the participating currencies in economic and monetary union is an important step aimed at ensuring a smooth transition to the euro, the new single currency.

The "pre-announcement" of the rates at which member currencies will be fixed against one another at the year-end is designed to minimise the risk of market turmoil in the run-up to January 1, when Emu is formally launched. However, the strategy is far from risk-free.

The pre-announcement relates to the relative exchange rates of the 11 Emu participants, not to their rates against the euro.

The only certainty at this point is that the Ecu, the basket of 12 existing EU currencies – those of all 15 EU countries except Finland, Sweden and Austria – will convert to the euro at a rate of one for one.

However, the euro will be composed of a different group. The British pound, for example, is included in the Ecu basket, but the UK will not be part of Emu. The Austrian shilling is not part of the Ecu basket but Austria will be part of Emu.

This has given rise to what economists refer to as an indeterminacy problem: the rate of the euro against external currencies, and the final conversion rate for "in currencies," cannot be calculated today. A strong fluctuation of the pound against the dollar on December 31, for example, would filter into the ecu/dollar rate and subsequently on the euro/dollar rate.

Another stipulation in the Maastricht Treaty adds to the difficulties: the treaty stipulates that Emu must not result in a change in the external value of existing currencies. This means in practice that the opening value of the D-Mark or the French franc against the dollar on January 4, 1999, the first trading day in the new year, must not differ significantly from the closing value as of December 31, 1998.

This means that EU finance ministers will only be able to announce the bilateral rates formally next January. So last weekend's announcement is therefore a non-binding intention only.

The markets could in theory speculate a currency away from its "pre-announced" rate on December 31 and thereby force finance ministers into choosing that rate as the conversion rate. This could give rise to a series of disconcerting and destabilising last-minute scenarios.

At present, there is no hint of pending speculation in the currency markets, as the market rates trade close to the pre-announced conversion rates. Nor do currency strategists expect any turmoil during the interim period.

Central bankers hope that the markets remain in a co-operative mood for the next eight months. Any speculation is bound to be counteracted by heavy central bank intervention. The support that central banks will lend to each during the interim period will be stronger than under the existing arrangements of the Exchange Rate Mechanism.

But while real euro exchange rates cannot be calculated today, it is possible to construct a "synthetic euro," the main purpose of which is to plug one of the biggest gaps the new currency will have when it is born on January 1, 1999: a lack of history.

From today until the end of this year, the FT will be publishing its own synthetic euro, calculated by the index specialist, FTSE International.

To calculate a euro value, one has to construct a basket of currencies in a similar way to that used for the Ecu today. But the inclusion of non-Ecu countries (Austria and Finland) in the euro, and non-participation of Ecu members (notably Britain) complicates matters.

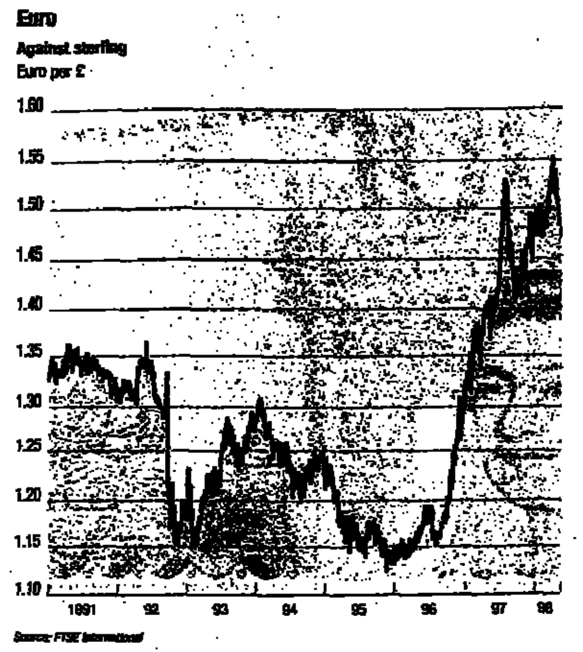
There are various ways to solve this problem and the approach adopted by FTSE International, using forward dollar rates and GDP weightings, is described in a separate article below.

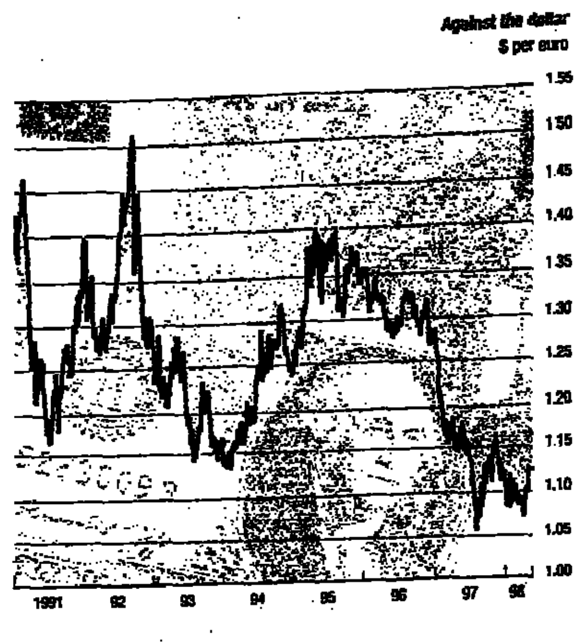
Mark Cliffe, international economist at HSBC in London, which has calculated several different synthetic euro rates using different inputs, says: "History is the most important aspect of the synthetic euro because it gives you benchmarks. It gives an interesting steer on volatility. But for people who want to look at the level of the currency it is not particularly useful. It is more useful in economic analysis because economic models are more concerned about relative changes than absolute levels."

Certainly, data on the synthetic euro must be hedged around with warnings: this is not a real currency and it should not be relied on a precise indicator of the euro's level on January 1, 1999.

What it can do is give a broad indication of the euro's relative strength, and direction and volatility against other currencies, filling the information vacuum which would otherwise exist ahead of January 1.

The Euro is likely to become a significant international reserve currency. The share of the dollar in international currency reserves has been steadily falling – from 76.1 per cent in 1973 to 63.3 per cent in 1994, while the share of the D-Mark has been rising. The new currency is expected to accelerate the trend.





Synthesising exchange rates

This table is designed to show the exchange rate of a "synthetic" euro currency, calculated by FTSE International for the Financial Times, against various other currencies.

Some warnings are necessary: since the euro will not exist until January 1, and its precise value cannot be calculated until then, the FT synthetic euro is a purely theoretical calculation, designed to show the broad trend of the euro's value against other currencies.

The only certainty is that one Ecu will be equal to one euro on January 1. But since the currencies in the Ecu basket are not identical to those that will make up the euro, the bilateral exchange rates announced at last weekend's EU summit are not a clear guide to year-end exchange rates between the Ecu and euro currencies.

They should, however, help condition market expectations.

Given these limitations, analysts have devised various ways to calculate a synthetic euro. There is no definitive methodology, but a substantial body of opinion prefers a system which pools and weights the national currencies of euro "in" states.

The methodology used by FTSE involves using fixed amounts, or weights, of each "in" currency and converting them into an external reference currency – the dollar – at current exchange rates. The dollar amount of each component currency is added up to give an overall Ecu/dollar value.

A key question is how to fix the weights, given that the Ecu includes "out" countries (UK, Denmark and Greece) and excludes "in" countries (Austria and Finland).

We have used GDP weights and applied them to the forward Ecu/dollar rates for the end of 1998 – reflecting market expectations of the Ecu's value at the inception of the euro – to produce for each currency a weighting in US dollars. That weighting is then multiplied by a dollar exchange rate – that prevailing at last weekend's EU summit – to determine the amount of each component currency in the euro basket.

The basket is then converted into a dollar amount, using each currency's prevailing dollar exchange rate, and added up to give a prevailing exchange rate.

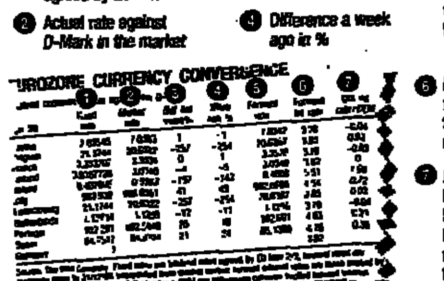
FT SYNTHETIC EURO RATES

Apr 24	ISO code	Closing mid-point	Change on day	Change on day %
Europe				
Austria	ATS	11.797689	+0.0880	0.78
Belgium	BEF	33.148689	+0.2657	0.81
Czech Republic	CZK	29.766770	+0.1653	0.56
Denmark	DKK	6.124228	+0.0474	0.78
Finland	FIM	4.871776	+0.0367	0.76
France	FRF	5.386007	+0.0424	0.79
Germany	DEM	1.605803	+0.0125	0.78
Greece	GRD	275.152880	+3.2628	1.16
Hungary	HUF	185.126342	+1.3896	0.74
Ireland	IEP	0.637248	+0.0050	0.79
Italy	ITL	1587.724727	+12.2789	0.78
Luxembourg	LUF	33.148689	+0.2657	0.81
Netherlands	NLG	1.807477	+0.0135	0.75

Tracking interest and currency rates

This table is designed to show the extent to which currency and short-term interest rates among the "in" states are converging in the run-up to Emu. It uses the D-Mark, the core Emu predecessor currency, as its point of reference and tracks convergence on German rates.

The starting point is the bilateral conversion rates for each "in" currency against the D-Mark set by the EU last weekend. This shows the bilateral rates which are meant to prevail when the currencies convert to euros on January 1. In practice, the final rates will be influenced by market realities, and it remains unclear to what extent market sentiment and economic reality can be steered into line over the next eight months.



1. Fixed bilateral exchange rates against the D-Mark agreed by EU last weekend
2. Actual rate against D-Mark in the market
3. Difference between fixed and market rates in %
4. Difference a week ago in %
5. Forward exchange rate against D-Mark to December 31, day before Euro launched
6. Forward interest rates implied by forward exchange rates
7. Difference between implied forward interest rate and D-Mark forward rate for December 31

Some analysts think market rates will move rapidly into line with the fixed bilateral rates. Some think this could be prolonged. There is also a chance of a speculative attack on weaker "in" currencies in the transition period.

This table, calculated for the FT by The WM Company, will *chart these fluctuations*, as well as the forward interest rates implied by the exchange rates for the year-end, when the euro is introduced.

Column one lists the "in" countries, with Germany listed at the bottom since it has the reference currency.

Column two shows the bilateral rates for each currency against the D-Mark *fixed by the EU last weekend.*

Column three shows the actual market exchange rate for each currency at the end of the latest day of trading.

Column four shows the difference between the fixed and market rates, expressed as a percentage.

Column five shows the percentage difference a week ago.

Column six shows the forward exchange rates to December 31, the day before the euro is launched.

Column seven shows the forward interest rates for the same date implied by those forward exchange rates.

Column eight shows the difference between the implied forward interest rates and D-Mark forward interest rates for December 31. The *D-Mark forward interest rate is* calculated by interpolation between published British Bankers' Association (BBA) market quotes.

BONDS

Euro equivalent to stepping on the gas

Edward Luce sees the disappearance of currency volatility providing a spur to US-style growth for Europe's bond markets

It has become almost a cliché to predict that European monetary union will result in the Americanisation of Europe's capital markets. Like many clichés, however, this one is based upon firm ground.

Whether it takes 12 months or five years to achieve, few serious players in the European bond markets doubt that it will come to increasingly resemble its US counterpart.

The disappearance initially of 10 currencies will automatically remove currency risk for a large and liquid pool of funds currently restricted to domestic *markets. The effects, many* of which are already apparent, will be manifold.

First, and most *importantly*, the removal of currency risk for cross-border investments within the eurozone will create a market to rival the size of the US bond market. No longer will German pension fund managers or French insurance companies be restricted to a diet of mostly domestic government bonds and related securities.

At a stroke, institutional investors such as these will be able to buy Italian or Finnish government bonds without having the headache of worrying about currency volatility. As a result, governments will be forced to be much more investor friendly than in the past.

This will include the introduction of much more transparent auction programmes, the advent of fully-fledged strip trading on government paper and a further opening of the auction process to for*eign participation.*

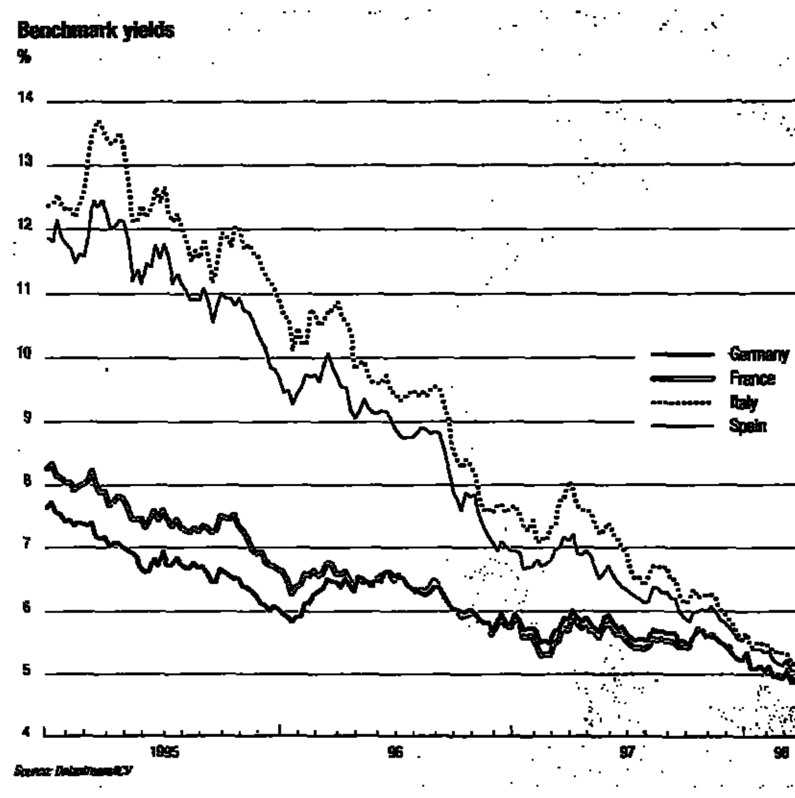
Paradoxically, however, the same process will increasingly push portfolio managers into buying non-government paper. Since a large proportion of fund *managers' returns* are derived from favourable currency fluctuations (continental holders of UK gilts, for example, have benefited from the recent appreciation of sterling), investors will increasingly be forced to look at paper with a lower credit rating if they want to outperform their indices.

The second effect of Emu, therefore, will be the creation of a fully-fledged corporate bond market. Similar to the US, this will include the growth of a junk bond – or high-yield bond – market as investors move down the credit curve in search of higher returns.

Primarily, though, the *market will be dominated by* investment grade companies with ratings of BBB minus or higher. This will transform the character of Europe's capital market. "The mantra for investors will be 'moving down the credit curve'," said John *Langton, chairman of the* International Securities Markets Association. "That is the only way investors will get decent returns."

Third, Emu will lead to the creation of a completely new set of benchmarks. In the fixed-rate sector this is likely *to be based upon the Ger*man government bond curve which is considered the most creditworthy and liquid of the 11 first-wave entrants.

Nevertheless, the French Treasury is putting up a strong fight to claim at least part of the yield curve. As an *adjunct to this, it plans to* issue inflation-linked bonds. French government bonds are also much more liquid than their German counterparts at the short-end of the yield curve. The result could be a mixed yield curve or – an increasingly popular *choice – a swaps curve* based on the rate at which the market switches floating rate funds into fixed-rate paper.



The FT's Euro Prices page will publish daily a chart of euro-related government bond yield curves. One of the more important elements of the new euro capital markets will be the establishment of benchmark government bonds across the maturity spectrum. German bonds are expected to be the yardstick at many points on the curve, but some French issues may also play an important role. Until this becomes clear, we will show two curves: one for German bonds, and the other for Ecu bonds, which will become *convertible into euros on January 1.* German and Ecu yield curves should show a close and increasing correlation over the next few months. The curves are calculated by Interactive Data, part of the FT Group, using constant maturity curves in which the maturity periods of bonds have been smoothed *to make them the same,* and thus comparable.

Market participants also expect a fierce battle for the *benchmark in the floating* rate sector. Here the choice is comparatively simple: *Euro Libor*, based on the London inter-bank offer rate, versus Euribor, an alterna*tive French-sponsored refer*ence rate which will be calculated from a much larger *pool of* banks. The European Central Bank, which will police banks' reserve requirements, holds the key to this contest.

Another related development arising from Emu will be the growth of more sophisticated transactions such as securitised bond issues and project finance bonds. As both investors and companies become more bond-friendly, the skills and resources devoted to more complex structured instruments will grow.

As part of its commitment to covering the development of Europe's bond market, the FT will publish a series of daily tables and graphs. This will include a graph showing the German and Ecu yield curves, government bond spreads against the Ecu for both "in" and "out" EU countries, and a series of *benchmark credit spreads of* leading European issuers. Detailed daily coverage will *also continue on the capital* markets page.

Preparing for a stream of issues

This table underlines the fact that the euro area is expected to see an explosion of corporate bond issuance denominated in the new currency.

Increasingly, the eurozone fixed-income market is likely to resemble the US, with established bonds which set benchmarks for the sector as a whole.

Very few bonds have yet been issued directly in euros, so this table aims to give a *broad overview of the price* and yield of some high-profile euro-related issues by governments and corporates. It is divided into three sections:

- **Sovereign fungible bonds:** Bonds issued by Emu "in" governments in various tranches designed to be fungible – exchangeable on identical terms – into one large euro issue on January 1. Until then, they pay in the currency of the tranche.
- **Euro issues:** Bonds, issued by corporates and others, which are already denominated in the new *currency but are payable in* Ecu until January 1.
- **Ecu issues:** Bonds, *originally issued in Ecus*, which will convert to euros on January 1, when Ecu are convertible into euros on a one-to-one basis.

Column one shows the issuer of the bond.

Column two shows its maturity – when its nominal value will be repaid.

Column three shows the bond's coupon – the nominal rate of interest it pays.

Column four shows how the bond is rated by Standard & Poor's, the credit rating agency.

Column five shows the *latest bid price – a trader's* buying price – for the security.

Column six shows the interest yield payable by the bond at the bid price.

Column seven shows the day's change in yield.

Column eight shows the month's change in yield

Column nine shows the spread, or differential, between the yield on the bond and the yield on a top-rated benchmark, in this case Government Ecu bonds.

EUROZONE CORPORATE BONDS

Apr 30	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge
Sovereign Fungible Issues							
Belgium (Kingdom of)	03/08	5.750	N/A	104.790	5.12	−0.06	[illegible]
France (Rep of)	04/08	5.250	N/A	101.570	5.05	−0.05	[illegible]
Italy (Rep of)	05/08	5.000	AA	98.660	5.17	−0.06	[illegible]
Portugal (Rep of)	06/08	5.375	N/A	101.560	5.17	−0.06	[illegible]
Euro Issues							
Abbey Natl Treas Srv	02/03	4.875	AA	99.900	4.89	−0.02	[illegible]
Gen Electric Cap Crp	10/04	5.500	AAA	102.620	5.01	−0.05	[illegible]
Oest Kontrollbank	04/08	5.250	AAA	100.300	5.21	−0.06	[illegible]
Cred Local de France	04/08	5.250	AA+	98.860	5.40	−0.04	[illegible]
Ecu Issues							
Bayer Hypo & Wech Bk	07/01	5.000	A+	101.340	4.53	−0.04	[illegible]
Cred Foncier France	03/04	8.375	A	114.550	5.41	−0.04	[illegible]
Euro Inv Bank	04/04	5.250	AAA	102.320	4.79	−0.01	[illegible]
[illegible]	04/07	6.375	AA-	106.400	5.45	−0.06	[illegible]

The new picture of credit risk

This table is designed to reflect the fact that the new *eurozone currency area* will form a single bond market which will start to attach similar yield spreads to bonds representing similar credit risks.

At present, currency carries great weight when assessing the riskiness of bonds in Europe, but after the introduction of the euro, the credit markets in the "in" countries will become more like the unified US market, where the emphasis is on the risk attached to an issuer with a certain profile.

It is too early to say which bonds will be the most representative at each point of credit risk but our table, compiled by Interactive Data, part of the FT Group, aims to *show credits* which are broadly representative of the ratings band in which they sit.

Column one lists the corporate or other issuer of the bond.

Column two shows the credit rating assigned to the issue by Standard & Poor's, a leading rating agency. The ratings run from the best, AAA, down to BB+, a sub-investment or junk bond.

Column three shows the maturity of the bond – the date at which the nominal amount of the loan is due to be repaid.

Column four shows the coupon, the nominal rate of interest payable.

Column five shows the Emu member currency in which the bond was issued.

Column six shows the yield spread, or differential, of the bond compared with a credit *benchmark. We have chosen* the Ecu government bond yield curve. Ecus will be convertible into euros on a one-to-one basis at the start of next year.

GOVERNMENT BOND SPREADS vs ECU

Apr 30	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs
"Ins"	−0.29	−0.37	−0.11	0.11	−0.16
Austria	−0.13	−0.39	−0.27	0.08	0.08
Belgium	0.00	0.80	0.00	0.00	0.00
Finland	0.25	0.06	0.12	0.12	0.26
France	−0.13	−0.07	0.01	−0.05	−0.32
Germany	0.16	−0.02	−0.03	0.02	0.12
Ireland	0.85	0.29	0.25	0.19	0.19
Italy	0.56	0.24	0.19	0.18	0.17
Luxembourg	0.27	0.28	0.01	0.00	0.06
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	0.15

Showing degrees of convergence

This table is designed to show the *degree of convergence* between government bond yields in the months leading up to the launch of the euro.

It shows the spread, or differential, between the yield on Ecu bonds and treasury bonds for each of the Emu "in" countries at the main points on the maturity curve.

Ecu bonds will convert into bonds denominated in euros on a one-for-one basis at the start of next year.

A separate section shows the yield spread for the "outs" – the four European Union member states which are not joining monetary union at its inception.

Yields on bonds of the "in" *countries have converged* strongly in the run-up to Emu but a further narrowing of *differentials is likely in* the months before the January 1 launch of the euro. However, *spreads on the "out"* currencies are likely to remain relatively wide.

The table comes from Interactive Data, part of the FT Group, which specialises in *fixed-income information and* constructs synthetic yield curves. It calculates constant maturity treasury yields – smoothed so that the maturity periods of bonds are exactly the same, and thus comparable – across the yield curve for every currency.

It then compares these yields with those for the constant maturity Ecu curve.

The table goes from government paper with a life of two years out to bonds with a life of 30 years. In cases where governments have not issued such very long-dated instruments, Interactive Data extrapolates the figures to fill out the curve.

EUROZONE CREDIT SPREADS vs ECU

Apr 30	S & P rating	Red date	Coupon	Currency code	Spread	Spread wk ago
KfW	N/A	01/03	5.000	DEM	0.08	0.09
France Telecom	AA+	11/08	6.250	FRF	0.30	0.31
Dresdner Fin	AA	11/08	6.250	FRF	0.24	−5.00
Halifax	AA	07/07	5.625	DEM	0.29	0.31
Ing Bank NV	AA−	01/08	5.500	NLG	0.24	0.27
Bayer Hypo W Bk	A+	02/02	6.750	ITL	0.75	0.81
Cred Foncier	A	02/03	7.250	DEM	0.87	0.85
Thomson-Brandt Int	A−	03/04	6.375	FRF	0.57	0.61
Chase Manhattan	A−	09/09	6.125	FRF	0.80	−5.00
[illegible]	BBB+	02/04	6.250	FRF	0.50	0.55

EQUITIES

Indices line up for benchmark battle

Simon Davies, Capital Markets Editor, takes a look at the parties *contesting* for top place in the Pan-European parade

The eleven-member Emu-bloc will have a combined stock-market capitalisation of about $3,300bn, making it the second largest stock market in the world. But it will still be a long way from being a genuine regional stock market.

One impediment may have been removed with the creation of a single currency, *but plenty more will remain*, from tax and regulation to cultural sensitivities.

But a substantial psychological barrier will have been breached, and it is only a matter of time before investors move beyond their traditional domestic benchmarks, towards a pan-European approach.

The birth of the euro has also increased the potential rewards for success in pan-*European* equity investment. Tight fiscal policies and the convergence of bond yields around those of German government bonds have meant a collapse in yields in Italy and Spain, and declining yields throughout the Continent. This is driving a switch of investment from government bonds into equities.

In March alone, $6.8bn went into Italian equity mutual funds. Morgan Stanley estimates that annualised equity mutual fund inflows in the year to date are $94bn in the seven countries it tracked: France, Germany, Italy, Spain, Sweden, Switzerland and the UK. Three of these are not going to be part of the first wave of Emu, but the growth rate in the four countries that will be, *has been far higher*.

Mark Howdle, European equity strategist at Salomon Smith Barney, argues that the euro-zone stock market could grow from $3,300bn to $7,500bn in current money terms in the next decade, even without any increase in valuations.

He assumes just a 5 per cent annual *increase* in share issuance – the current growth rate – and a 0.4 per cent annual increase in return on equity.

And since the euro will improve comparability between European companies, it should increase pressure on them to improve returns.

The increasing size of the single currency market is going to create considerable pressures for change. Institutional investors will demand lower dealing costs for switching between exchanges, and investors will increasingly require fund managers to beat pan-European benchmarks, rather than local.

Previously, restrictions such as the 85 per cent rule governing the currency *matching* of assets and liabilities for insurance companies in a number of *European countries*, prevented such an approach. Much of that will change on January 1.

With more than 50 per cent of fund managers polled in last year's Merrill Lynch survey saying that they would change to a pan-European benchmark, 1998 is shaping up to be the year of *the battle of the indices*.

Steve Malinowski, director of the portfolio strategies group at *Merrill Lynch, said*: "There has been a large amount of euro-related transactions, as people restructure away from domestic *portfolios*."

It may be a growth market, but there clearly is not room *for the growing number of index providers to be* highly successful.

One of the key battlegrounds will be in the futures markets, where FTSE International, owned by the Financial Times and the London Stock Exchange, is pitting itself against Dow Jones.

The aim is to develop the pan-European equivalent to *the FTSE 100 or Dax indices*. The London International Financial Futures and Options Exchange has announced that it plans to launch contracts based on the Eurotop 100 index, *formed by* FTSE and the Amsterdam Exchanges, on May 12. Eurotop has created 100 and 300 stock indices for *both the Euro bloc and* Europe.

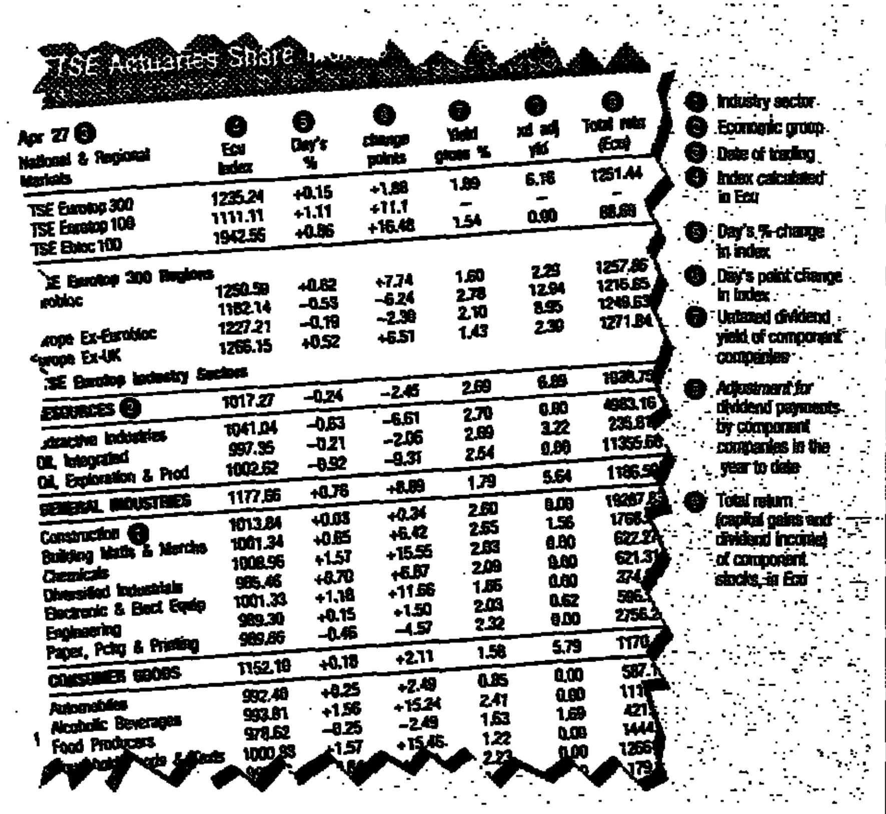
Meanwhile, its European arch-rival Deutsche Terminbörse is to start trading in Dow's Stoxx indices on June 22, along with the French and Swiss futures exchanges. Stoxx is offering Euro and European 50 stock indices. It also has a broader Euro index with more than 300 companies, and a pan-European index with about 600.

Mr Malinowski said: "In *order for either set of futures* contracts to be successful, one would have to see the development of a *liquid* index arbitrage market."

FTSE International will be competing, via its FT/S&P Actuaries indices, with MSCI *and the broader* Stoxx indices for dominance among institutional fund managers for more *complex portfolio* benchmarking.

Here, benchmarks need to offer broader representation of the underlying markets than a retail index, which is more concerned with the ability of investors to arbitrage between the future and the underlying stocks in the index.

Given the cost to fund managers of switching *benchmarks*, and the ongoing barriers to genuine pan-European investment, the *victors in this battle may* take a long time to emerge. Mr Howdle said: "I think that by the year 2005 we will have one fantastically deep and liquid euro bourse with most European companies, and it will have one mighty *main index*." *That* leaves room for an awful lot of disappointment.



FTSE Eurotop: real-time equity indices covering the European market

This table covers in detail the daily movements of the FTSE Eurotop group of indices, *which have been created to* give investors a wide-ranging family of "real-time" equity indices covering the European market.

The indices are managed by FTSE International, a specialist index company *jointly owned by the Financial* Times and the London Stock Exchange. FTSE International *also manages the FT/S&P* World index, a leading global index against which fund managers benchmark their performance, and the UK's FTSE 100 and Actuaries All-Share indices.

Monetary union will mean a *revolution in the way fund* managers regard Europe. With the elimination of currency risk *among founder Emu states*, investors will place less emphasis on their exposure to countries. They will become more concerned about their weighting *in particular sectors* - either within the Eurobloc or across Europe as a whole.

They will also become more concerned about hedging their exposure to European markets, using futures and options derivatives contracts based on indices calculated in "real time" – in other words, continuously throughout the day.

The FTSE Eurotop indices address these needs. They will be expressed in Ecu until next January, when they will automatically switch to euros. They consist of:

* **The Eurotop 300 index** This covers the 300 largest *companies in Europe* – whether they belong to Emu countries or not – and *represents about 70 per cent* of the region's market capitalisation. Constituents are reviewed quarterly. The index includes a number of regional sub-indices – for example, one covers only companies within the Eurobloc – and is *broken down into economic* groupings (broad areas of industrial activity) *and individual industrial* sectors.
* **The Eurotop 100 index** This is designed specifically for derivatives, which need to be based on baskets of very liquid, easily tradeable stocks.

It covers 100 leading companies and is composed to make it representative of major European stock exchanges. Each eligible country is allocated a weighting in the index, based on its exchange capitalisation. Individual stocks are then included on the basis of their share trading volume over the past three years. Constituents are changed once a year. *Yesterday FTSE launched a* Eurobloc 100 index.

Reading across the table, column one shows the name of the index, or sub-index; column two shows the closing value of the index, expressed in Ecu, on the date shown in *the top left-hand corner*; column three shows the day's percentage change in the *index; and column four shows* the same change, expressed in points.

Column five shows the index's gross yield – the untaxed dividend yield produced by constituent companies. Column six shows *the ex-dividend adjustment*, year to date. When a company pays a dividend, its *shares usually drop by an* equivalent amount. This is the ex-dividend adjustment. The figure allows the investor to track the flow of income on a portfolio.

Column seven shows the total return delivered by index constituents – the combination of capital gains through changes in share prices and income from dividends reinvested in the stock market.

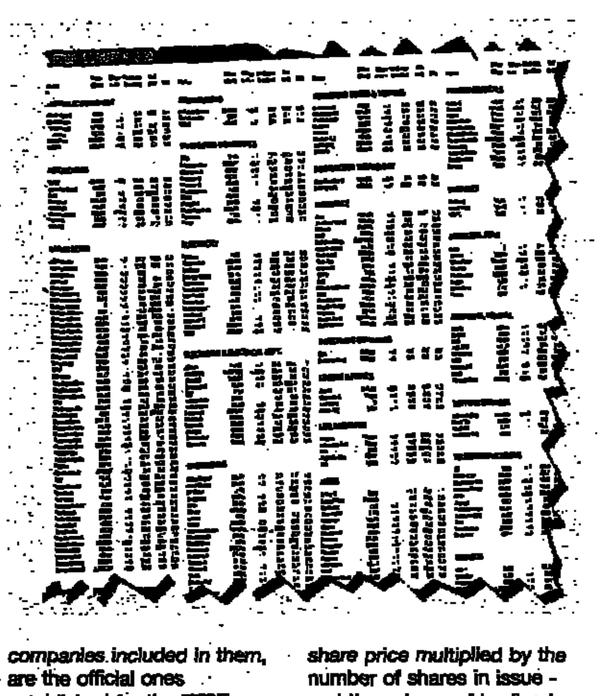
Financial data for FTSE Eurotop 300

This table shows the share price and other financial data for all the constituents of the FTSE Eurotop 300 index. Companies in this index, and in the smaller Eurotop 100, are likely to emerge as *members of a new* "super-league" of leading European businesses as fund managers focus more on investing across the continent.

The FT already prints the share price of these companies, expressed in local *currencies, on our World* Stock Markets and London Share Service pages. What, then, is different about this new table?

"It brings together all the companies in the 300 index in a single place.

* Share prices are expressed in Ecus, rather than the local currency, allowing easier comparisons. Ecus will be exchangeable into euros on a one-to-one basis from the start of next year.
* It groups companies by *sector, rather than country*. Fund managers are increasingly focusing on the comparisons between European companies in the same sector when making investment decisions. The sectors shown, and the *companies included in them*, are the official ones established for the FTSE indices by a committee of independent experts.
* It indicates which companies are domiciled in Emu founder member *countries and which are from* outside the Eurobloc. "In" countries are marked in bold.
* It includes additional financial data which has not always been shown in the FT for all these stocks: market capitalisation - the company's *share price multiplied* by the number of shares in issue - and the volume of trading in the shares on the latest trading day.
* The final column shows the share's yield - the company's annual dividend income *expressed as a percentage of* its share price. Note that the yield figures are gathered from local stock exchange data and, given different statistical methods, are not necessarily comparable across national boundaries.



Eurotop-driven derivatives data

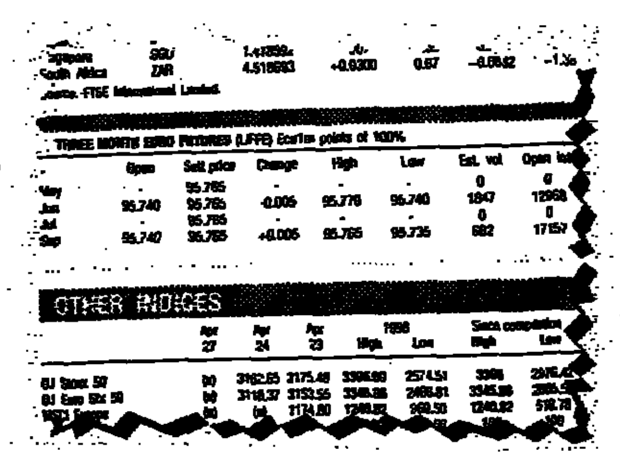
New derivatives contracts relating to the Eurotop indices *are being launched* on May 12 and the FT will carry details of both. Liffe, the London *International Financial Futures* and Options Exchange, will launch a futures contract based on the Eurotop 100 index.

AEX, the Amsterdam Exchanges, will launch an options contract on the same index. It is a European-style option, which means it may not be exercised before the *last trading day. Both will be* denominated in Ecus, switching to euros from the *start of January*.

The FT will also include details of the first derivatives contract to be denominated in euros, which was launched by Liffe on April 30. It covers three-month euro interest rates – expected to be the most heavily traded instrument after monetary union. It has the same delivery and pricing characteristics as the existing Euromark futures and Eurolira contracts, so *trading in both* can merge smoothly into one market after January 1.

FT tables of futures contracts, reading from left to right, include the month in which the contract will finally be settled; the opening price of the contract on the latest day of trading; the settlement price, the closing price used for determining profits and losses for marking accounts to market; the day's high and low prices; the trading volume; and the open interest, the sum of outstanding long and short positions, which gives an indication of market depth.

Options tables show the premiums for put and call options *with a range of* different striking prices and maturities.



ECONOMIC STATISTICS

Riding on the key indicators of Euroland

By Wolfgang Münchau, Economics Correspondent

From this month onwards, the Financial Times will publish key economic statistics which treat "Euroland" as a single economic entity.

The statistics will appear on the World News pages in section one each Tuesday, and will include the main economic indicators – growth in gross domestic product, inflation, unemployment, industrial production, retail sales, money supply and the current account – to give readers a regular and up-to-date picture of the current state of the economy.

The data will come from Eurostat, the statistical office of the European Union, and the European Central Bank (ECB), which will formally set up office in Frankfurt this summer.

Eurostat already publishes a whole range of social and economic data for the 15-member European Union. From this month onwards, Eurostat will add a sub-section treating the 11 participating countries in Emu – the 15 EU members minus the UK, Denmark, Sweden and Greece – as a separate entity.

With this information, the Luxembourg-based Eurostat will propel itself from relative obscurity into a statistical office that captures the headlines. However, Emu will not obliterate national statistics offices. They will continue to provide the domestic data that will enter into the Emu calculations.

One of the most keenly watched series will be Eurostat's release of consumer price inflation data – based on a harmonised index. This will be the inflation rate to be targeted, or at least monitored, by the future European Central Bank (ECB), which is committed to maintaining price stability. National inflation rates will continue to exist, but they will cease to have immediate policy implications in the way they do now.

Will the Europeanisation of statistics render national data obsolete? Over time, they are likely to become less important, but in the early years of Emu there is bound to be interest in the data's relative dispersion. Strong variations in the inflation rates inside the Emu-zone could point towards strains.

It is also possible markets will continue to take a special interest in the German inflation rate, since it might serve as a proxy for the Emu-wide inflation rate, given the weight of the German economy in the group.

The other statistics of interest will be the monetary data to be published by the ECB. No decision has yet been taken on whether the ECB will pursue a monetary target, in line with the Bundesbank's current approach, or whether it will pursue a strategy of inflation targeting.

It is expected that the two approaches might run side-by-side in the initial phase of Emu. Analysts will be watching how stable the Emu-wide monetary aggregates prove, and whether they will be suitable as a target variable.

EQUITIES

Eurotop shrugs off EU dispute

EUROPEAN OVERVIEW

By Martin Dickson, Financial Editor

Trans-European stock indices rose yesterday as investors shrugged off the European Union's weekend summit wrangle over the appointment of the president of the European Central Bank and took their cue from gains on Wall Street.

The FTSE Eurotop 300 index closed at 1,236.28, up 1.25 per cent, while the narrower Eurotop 100 index rose to 2,830.90, up 1.87 per cent.

The EU dispute over the term of Wim Duisenberg, the ECB's first governor, prompted early weakness in the bond market, amid speculation that Germany, the core setter of interest rates among the Emu "in" countries, might raise rates soon to counter any blemish on the ECB's credibility.

German bunds – the expected Emu area benchmark bond – dipped initially but in afternoon trading the 10-year bond stood around 101.16, up 0.20 from late Thursday.

More favourable macroeconomic news came from Eurostat, the EU's statistical service, which announced provisional annual inflation in the 11 Emu states was 1.2 per cent in March, unchanged from February, compared with an estimated 1.5 per cent a year earlier. The statistic is likely to be one of the key indicators watched by the ECB.

However, European equity markets, mostly closed last Friday for the May Day holiday, were focused yesterday on following through Wall Street's Friday rally and the further gains yesterday in early New York trading. London was closed yesterday for its May Day holiday.

Among FTSE Eurotop industrial sectors, particularly strong performances came from construction, up 3.04 per cent to 1,030.37, and automobiles, up 2.26 per cent at 1023.56.

The automobile sector was helped by a flurry of announcements on April car sales, among others from Renault and Peugeot of France. Volvo announced April sales up 11 per cent, while Daimler-Benz reported sales up 24 per cent in the first four months of the year.

Weaker sectors yesterday included extractive industries, property and tobacco.

Among electronic and electrical companies, LM Ericsson closed down Ecu 2 at Ecu 47.73, but Schneider of France rose Ecu 4.1 to Ecu 72.34 on hopes of good figures and Alcatel Alsthom was up Ecu 5.1 to Ecu 174.23.

Générale de Banque of Belgium was up Ecu 14.1 at Ecu 539.72 as the board met to consider the takeover overture from insurance group Fortis AG, which saw its shares rise Ecu Ecu 10.1 to Ecu 267.10. There was market speculation that Fortis might turn hostile.

● FTSE International, the index company jointly owned by the Financial Times and the London Stock Exchange, yesterday launched an index of 100 leading companies from countries joining Emu in the first wave.

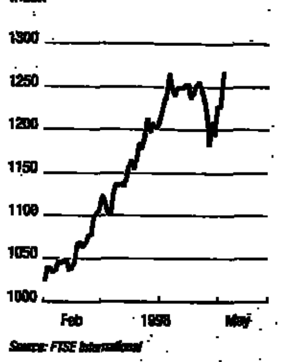
The FTSE Ebloc 100 index selects its constituents by market capitalisation and sector representation from countries confirmed at the weekend as Emu entrants.

Germany has the largest country weighting in the index, with 31 per cent, followed by France, 23 per cent, and the Netherlands, 20 per cent. Italy represents 12 per cent of the index, Spain 10 per cent, Finland 2 per cent and Belgium 1 per cent. There are no companies of sufficient size to be included from Austria, Ireland, Luxembourg and Portugal.

The index complements the FTSE Eurotop 100 and 300 indices, which measure the performance of companies across Europe, whether or not they belong to Emu "in" countries.

Eurotop 300 Eurobloc

Index



Source: FTSE International

FTSE Actuaries Share Indices — European series

May 04 National & Regional Markets	Ecu Index	Day's change %	change points	Yield gross %	xd adj ytd	Total rtn (Ecu)
FTSE Eurotop 300	1236.28	+1.25	+15.22	1.90	8.00	1254.41
FTSE Eurotop 100	2830.90	+1.87	+51.93	-	-	-
FTSE Ebloc 100	1018.31	+1.83	+18.31	1.55	0.37	1018.88
FTSE Eurotop 300 Regions						
Eurobloc	1268.01	+1.89	+23.48	1.54	3.46	1275.60
UK	1171.51	-0.34	-4.09	2.76	13.48	1205.28
Europe Ex-Eurobloc	1213.98	+0.64	+7.58	2.27	11.23	1238.52
Europe Ex-UK	1273.85	+2.10	+26.18	1.47	4.88	1282.26
FTSE Eurotop Industry Sectors						
RESOURCES	1061.22	+1.65	+17.18	2.57	7.15	1063.91
Extractive Industries	988.05	-1.20	-11.95	2.87	0.00	988.05
Oil, Integrated	1018.38	+1.84	+18.38	2.58	0.00	1018.38
Oil, Exploration & Prod	992.72	-0.72	-7.28	2.49	0.00	992.72
GENERAL INDUSTRIES	1166.40	+1.47	+17.13	1.81	8.27	1198.11
Construction	1030.37	+3.04	+30.37	2.95	0.00	1030.37
Building Matls & Merchs	1013.80	+1.38	+13.80	2.63	0.00	1013.80
Chemicals	999.71	-0.03	-0.29	2.15	4.82	1004.55
Diversified Industrials	1020.99	+2.10	+20.99	2.68	0.00	1020.99
Electronic & Elect Equip	1013.85	+1.38	+13.85	1.64	0.00	1013.85
Engineering	1016.21	+1.62	+16.21	2.01	0.00	1016.21
Paper, Pckg & Printing	1014.46	+1.45	+14.46	2.32	0.00	1014.46
CONSUMER GOODS	1168.52	+0.85	+16.95	1.58	8.31	1187.74
Automobiles	1023.56	+2.26	+23.56	0.88	0.00	1023.56
Alcoholic Beverages	1001.21	+0.12	+1.21	2.34	0.00	1001.21
Food Producers	1018.19	+1.82	+18.19	1.54	0.00	1018.19
Household Goods & Texts	1015.94	+1.59	+15.94	1.21	0.00	1015.94
Healthcare	1013.63	+1.36	+13.63	2.31	0.00	1013.63
Pharmaceuticals	1007.48	+0.75	+7.48	1.33	0.00	1007.48
Tobacco	987.40	-0.26	-2.60	4.04	0.00	987.40
SERVICES	1170.64	+0.84	+10.90	1.86	7.10	1187.27
Distribution	1014.74	+1.47	+14.74	0.89	0.00	1014.74
Leisure & Hotels	1015.54	+1.55	+15.54	2.41	0.00	1015.54
Media	1006.90	+0.69	+6.90	2.31	0.00	1006.90
Retailers, Food	1003.27	-0.33	-3.27	2.00	0.00	1003.27
Retailers, General	1007.26	+0.73	+7.26	2.26	0.00	1007.26
Telecommunications	1014.00	+1.40	+14.00	1.58	0.00	1014.00
Breweries, Pubs & Rests	1001.70	+0.17	+1.70	2.59	0.00	1001.70
Support Services	1001.20	+0.12	+1.20	1.31	0.00	1001.20
Transport	1005.70	+0.57	+5.70	2.22	0.00	1005.70
Information Technology	1008.34	+0.83	+8.34	0.32	0.00	1008.34
UTILITIES	1330.84	+0.60	+7.87	3.30	1.84	1338.84
Electricity	1007.59	+0.76	+7.59	3.41	0.00	1007.59
Gas Distribution	1003.94	+0.39	+3.94	1.86	0.00	1003.94
Water	1000.28	+0.03	+0.28	5.14	0.00	1000.28
FINANCIALS	1389.65	+1.42	+19.51	1.80	0.63	1408.03
Banks, Retail	1014.45	+1.45	+14.45	2.05	0.00	1014.45
Insurance	1015.50	+1.55	+15.50	1.24	0.00	1015.50
Life Assurance	1015.09	+1.51	+15.09	1.46	0.00	1015.09
Other Financial	1007.64	+0.76	+7.64	1.95	0.00	1007.64
Investment Companies	1005.71	+0.57	+5.71	2.25	0.00	1005.71
Property	995.70	-0.43	-4.30	2.71	0.00	995.70

■ THREE MONTH EURO FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
May	-	95.780	-0.020	-	-	0	0
Jun	95.790	95.780	-0.020	95.780	95.790	213	12671
Jul	-	95.780	-0.020	-	-	0	0
Sep	95.760	95.770	-0.030	95.780	95.750	39	17233

OTHER INDICES

	May 4	May 1	Apr 30	1998 High	1998 Low	Since compilation High	Since compilation Low
DJ Stoxx 50	3320.83	(u)	3234.57	3368.80	2574.51	3368	2976.42
DJ Euro Stx 50	3302.95	(u)	3125.45	3346.06	2468.31	3346.06	2005.52
MSCI Europe	(u)	1204.93	1195.06	1248.82	980.50	1248.82	510.78

Source: Datastream/part of FT Information.

FTSE EUROTOP 300

Name	Price (Ecu)	Chge +/-	Mkt cap Ecu(bn)	Yld	P/E
ALCOHOLIC BEVERAGES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
AUTOMOBILES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BANKS RETAIL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BREWERIES, PUBS & RESTAURANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
BUILDING MATERIALS & MERCHANTS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CHEMICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
CONSTRUCTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DISTRIBUTORS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
DIVERSIFIED INDUSTRIALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRICITY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ELECTRONIC & ELECTRICAL EQPT.					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ENGINEERING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
EXTRACTIVE INDUSTRIES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FOOD PRODUCERS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
GAS DISTRIBUTION					
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HEALTH CARE					
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HOUSEHOLD GOODS & TEXTILES					
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INFORMATION TECHNOLOGY					
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INSURANCE					
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INVESTMENT COMPANIES					
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LEISURE & HOTELS					
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LIFE ASSURANCE					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
MEDIA					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OIL, EXPLORATION & PRODUCTION					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OIL, INTEGRATED					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
OTHER FINANCIAL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PAPER, PACKAGING & PRINTING					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PHARMACEUTICALS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
PROPERTY					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RETAILERS, FOOD					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
RETAILERS, GENERAL					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
SUPPORT SERVICES					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TELECOMMUNICATIONS					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TOBACCO					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
TRANSPORT					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
WATER					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Notes

Price data and market capitalisations supplied by FTSE International. Market caps may include secondary lines not eligible as constituents. Stocks in bold type are domiciled in Emu countries. Trading volumes and yields derived from local domestic markets and supplied by Datastream, part of FT Information. Company classifications are based on those used for the FTSE Eurotop share indices.

CURRENCIES & MONEY

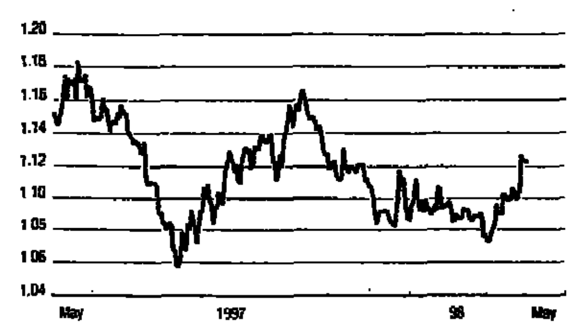
FT SYNTHETIC EURO RATES

May 04	Currency code	Closing mid point	Change on day	Change on day%	Change on week	Change week %
Europe						
Belgium	BEF	32.768125	+0.0927	0.28	-0.3401	-1.03
Czech Republic	CZK	29.016838	-0.0848	-0.29	-0.5170	-1.75
Denmark	DKK	6.058983	+0.0195	0.32	-0.0552	-0.90
Finland	FIM	4.822245	+0.0175	0.36	-0.0424	-0.87
France	FRF	5.324731	+0.0212	0.40	-0.0498	-0.93
Germany	DEM	1.588042	+0.0046	0.29	-0.0146	-0.91
Greece	GRD	275.943882	+0.0537	0.02	-6.5457	-2.32
Hungary	HUF	187.110808	+0.5423	0.29	-1.0918	-0.58
Ireland	IEP	0.631918	+0.0030	0.48	-0.0029	-0.46
Italy	ITL	1567.539389	+4.6520	0.30	-16.7186	-1.06
Luxembourg	LUF	32.768125	+0.0927	0.28	-0.3401	-1.03
Netherlands	NLG	1.789411	+0.0064	0.38	-0.0125	-0.69
Norway	NOK	6.592669	+0.0110	0.17	-0.0785	-1.18
Poland	PLN	3.008945	-0.0137	-0.45	-0.0256	-0.84
Portugal	PTE	182.770937	+0.5108	0.31	-1.5162	-0.82
Romania	ROL	7456.849928	+54.6678	0.74	-27.8795	-0.37
Russia	RUB	5.487445	+0.0091	0.17	-0.0070	-0.13
Slovakia	SKK	30.882621	+0.1168	0.38	-0.3124	-1.01
Spain	ESP	134.999149	+0.5403	0.40	-1.1458	-0.84
Sweden	SEK	6.854831	+0.0145	0.21	-0.0621	-0.90
Switzerland	CHF	1.327929	+0.0005	0.04	-0.0062	-0.46
United Kingdom	GBP	na	na	na	na	na
ECU	ECU	1.243567	-0.0036	-0.29	+0.0107	0.86
Brazil	BRL	1.019859	+0.0021	0.21	-0.0046	-0.44
Americas						
Canada	CAD	1.278813	+0.0051	0.40	-0.0101	-0.79
Mexico	MXN	7.555121	-0.0052	-0.07	-0.0727	-0.95
United States	USD	1.121822	-0.0019	-0.17	+0.0052	0.46
Australia	AUD	1.383999	+0.0202	1.48	+0.0008	0.06
Pacific/Middle East/Africa						
Hong Kong	HKD	6.906890	+0.0113	0.16	-0.0327	-0.47
Japan	JPY	118.726512	+0.3219	0.27	+0.2956	0.25
Singapore	SGD	1.409136	-0.0001	0.00	-0.0242	-1.69
South Africa	ZAR	4.513640	+0.0186	0.41	-0.0071	-0.16

Source: FTSE International Ltd. This table gives a theoretic, synthetic value for the Euro against various other currencies, calculated by applying GDP weights to Euro "in" currencies. The Euro will not exist until January 1 and the table should not be used as a precise guide to its value. It is designed to show broad currency valuation trends. UK rate not available today.

Synthetic Euro against the dollar

$ per euro



Source: FTSE International

EUROZONE CURRENCY CONVERGENCE

Bilateral conversion rates against the D-Mark

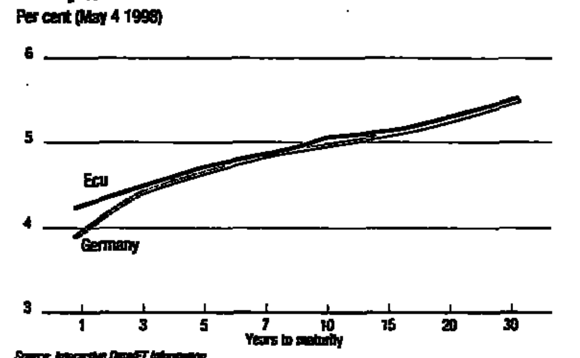
May 04	Fixed rate	Market rate	Diff fxd v mkt %	Week ago %	Forward rate	Forward Int rate	Diff int rate v DEM
Austria	7.03552	7.0363	0.01	0.01	7.0353	3.82	-0.02
Belgium	20.6255	20.6343	0.04	0.16	20.6363	3.85	0.01
France	3.35386	3.353	-0.03	-0.01	3.3525	3.82	-0.02
Finland	3.04001	3.0366	-0.11	-0.15	3.0369	3.86	0.02
Ireland	0.402676	0.3979	-1.19	-1.63	0.4021	5.46	1.62
Italy	990.002	987.0895	-0.29	-0.15	991.7399	4.56	0.72
Luxembourg	20.6255	20.6343	0.04	0.16	20.6363	3.85	0.01
Netherlands	1.12674	1.1268	0.01	-0.21	1.1264	3.81	-0.03
Portugal	102.505	102.4979	-0.01	0	102.614	4.01	0.17
Spain	85.0722	85.0098	-0.07	-0.14	85.196	4.18	0.34
Germany	1					3.94	

Source: The WM Company. Fixed rates are bilateral rates agreed by EU May 2/3. forward rates are exchange rates to 31-12/98 interpolated from market quotes; forward interest rates are those implied by these forward exchange rates. Diff int rates v DEM are differences between implied forward interest rates and the DEM forward interest rate for 31/12/98. DEM forward interest rate for 31/12/98 is calculated by interpolation between published BBA market fixings.

BONDS

Bond yield curve

Per cent (May 4 1998)



Source: Interactive Data/FT Information

GOVERNMENT BOND SPREADS vs ECU

May 04	2 yrs	5 yrs	7 yrs	10 yrs	20 yrs	30 yrs
"INs"						
Austria	-0.34	-0.39	-0.12	0.07	-0.19	-0.46
Belgium	-0.16	-0.39	-0.28	0.09	-0.20	0.08
Finland	0.00	0.00	0.00	0.00	0.00	0.00
France	0.18	0.04	0.09	0.10	0.28	0.44
Germany	-0.14	0.00	0.05	0.00	-0.26	-0.53
Ireland	0.10	-0.05	-0.05	0.01	0.13	-0.01
Italy	0.81	0.28	0.23	0.19	0.21	-0.06
Luxembourg	0.46	0.19	0.16	0.18	0.15	0.14
Netherlands	-0.17	-0.34	-0.25	0.09	-0.20	0.08
Portugal	-0.31	-0.28	-0.01	-0.03	0.05	0.03
Spain	0.25	0.01	0.06	0.12	-0.14	-0.41
"OUTs"						
Denmark	-0.02	0.26	0.21	0.26	0.22	0.17
Greece	0.23	0.80	0.54	1.10	1.46	2.57
Sweden	2.84	2.58	2.31	3.52	4.19	5.67
UK	0.32	0.41	0.35	0.27	0.21	-0.06

Source: Interactive Data/FT Information. Table takes common convention constant maturity treasury yield curves for each currency and compares to the constant maturity Ecu curve to calculate a spread.

EUROZONE CORPORATE BONDS

May 04	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Ecu
Sovereign Fungible issues								
Belgium (Kingdom of)	03/08	5.750	N/A	105.070	5.08	0.04	0.05	0.07
France (Rep of)	04/08	5.250	N/A	101.860	5.01	-0.04	0.07	0.00
Italy (Rep of)	05/08	5.000	AA	99.020	5.13	-0.04	0.07	0.12
Portugal (Rep of)	06/08	5.375	N/A	101.860	5.13	-0.02	0.13	0.12
Euro Issues								
Abbey Nat'l Treas Srv	02/03	4.875	AA	100.250	4.81	-0.03	0.32	0.66
Gen Electric Cap Crp	10/04	5.500	AAA	102.800	4.97	-0.01	0.21	0.41
Oest Kontrollbank	04/08	5.250	AAA	100.770	5.15	-0.06	0.10	0.14
Cred Local de France	04/08	5.250	AA+	99.240	5.35	-0.05	0.15	0.34
Ecu Issues								
Bayer Hypo & Wch Bk	07/01	5.000	A+	101.360	4.52	-0.01	0.12	0.61
Cred Foncier France	03/04	8.375	A	114.710	5.38	0.02	0.12	0.82
Euro Inv Bank	04/04	5.250	AAA	102.480	4.76	0.03	0.16	0.20
ABN Amro Hldg. NV	04/07	6.375	AA-	106.730	5.41	-0.04	0.10	0.50

Source: Interactive Data/FT Information. London closing. Fungible bonds issued in tranches by Emu "in" sovereigns and fungible into one big Euro issue 1/1/99; Euro issues are issued in the new currency; Ecu bonds are issued in Ecus but convert to Euros 1/1/99

EUROZONE CREDIT SPREADS vs ECU

May 04	S & P rating	Red date	Coupn	Currency code	Spread	Spread wk ago	mth ago
KFW	N/A	01/09	5.000	DEM	0.07	0.12	0.02
France Telcom	AA+	11/06	6.250	FRF	0.31	0.30	0.31
Dresdner Fin	AA	11/08	6.250	FRF	0.24	0.24	-4.90
Halifax	AA	07/07	5.625	DEM	0.30	0.34	0.30
Ing Bank NV	AA-	01/08	5.500	NLG	0.20	0.31	0.27
Bayer Hypo W Bk	A+	02/02	8.750	ITL	0.80	0.81	0.75
Cred Foncier	A	02/03	7.250	DEM	0.89	0.84	0.87
Thomson-Brandt Int	A-	03/04	8.375	FRF	0.58	0.63	0.59
Chase Manhattan	A-	09/09	8.125	FRF	0.80	0.82	-4.90
Generale des Eaux	BBB+	03/04	6.250	FRF	0.51	0.62	0.57
Bank of China	BBB	07/99	7.125	DEM	0.95	0.68	0.49
Natl Bk of Hungary	BBB-	06/01	9.000	ATS	1.29	1.42	1.42
Korea Dev Bank	BB+	11/02	5.625	FRF	4.83	4.78	5.43

Source: Interactive Data/FT Information. Table shows yield spreads to the Ecu curve for issues of a broadly representative credit in each rating band denominated in Euro "in" currencies.

Europe lower in muted trading

GOVERNMENT BONDS

By Vincent Boland in London and John Labate in New York

European markets closed lower in muted trading yesterday as investors digested the outcome of the weekend's summit on European monetary union and the implications for interest rates in the wake of the row over the chairmanship of the European Central Bank.

The downward drift in prices was confirmed by a weaker tone in early trading in the US Treasury market.

Market watchers agreed that the ECB row was unfortunate but would have little long-term impact on the markets. There was also broad relief that the new bank's board bore a distinctly anti-inflationary bias, which was seen as positive in the medium to long term.

However, analysts said the Bundesbank, which is known to be unhappy with the ECB outcome, would probably react soon.

"Following their assertive statements last week on the inappropriateness of a split term for the ECB presidency, the Bundesbank is in a dilemma," noted ABN Amro, in a research note.

"A response is necessary. A small change in policy stance, for example a move to a variable repo rate, cannot be ruled out, and would also facilitate the process of interest rate convergence."

Analysts said there was no threat of a rise in German interest rates because one was not warranted on economic criteria.

However, the process of convergence would lead to core European rates rising while those of countries such as Ireland and Spain would have to fall.

GERMAN BUNDS led Europe's markets lower, although trading was very light. The June future settled down 0.25 at 107.04, with some 265,000 contracts traded in Frankfurt by late afternoon.

At that level, however, the contract was well above the day's lows and in the middle of a relatively narrow trading range.

SPANISH BONOS were the exception to the weaker tone. The June future settled 0.26 higher at 108.73 in anticipation of a cut in interest rates this week as they began converging with core European rates.

Though such a move has largely been priced into the market, analysts said relief at the country's official inclusion in Emu had generated a positive tone.

US TREASURIES weakened in quiet trading. By early afternoon the benchmark 30-year bond had lost [illegible] to 102[illegible], sending the yield higher to 5.949 per cent. The 10-year note fell [illegible] to 98[illegible], yielding 5.675 per cent, and the two-year note lost [illegible] to 100[illegible], yielding 5.608 per cent.

"There's no volume because of London's absence and Tokyo's last night," said Richard Gilhooly, international bond strategist at Paribas Capital Markets. "I think the focus here is on the dollar, which is quite weak following the European weekend compromise."

The US currency had fallen against the D-Mark, to DM1.7801, by early afternoon. Light bond trading activity was helped by the lack of fresh economic data.

Later in the week new data on manufacturing orders and wholesale trade will be published.

On Friday the week's most important report, on non-farm payrolls, will be released.

GMAC to set euro benchmark for FRNs

By Vincent Boland

International bond issuance in Europe's new single currency is expected to gather pace strongly now the euro has been formally launched, analysts said yesterday. The dispute over who should head the European Central Bank is expected to have little effect.

GMAC, the financial services arm of General Motors of the US, is likely to be one of the first borrowers to launch a euro-denominated corporate bond in the wake of the currency's launch at the weekend.

The company signalled yesterday it was preparing to tap the market, probably today, with an issue of floating-rate notes of at least E500m.

David Walker, director of liability management at GMAC, said the company wanted to set a benchmark for euro-denominated FRNs as quickly as possible.

GMAC already has euro-denominated fixed-rate borrowings, and also has floating-rate notes issued in D-Marks and French francs, which will automatically convert to euro status from next year.

However, this week's five-year issue will be the group's first in the new currency in floating-rate notes.

"We have been watching this market for some time and waiting for the [Brussels] summit's confirmation that the euro was going ahead as planned. The euro will be a major market," Mr Walker said.

Merrill Lynch and SBC Warburg Dillon Read will be acting as book-runners for the GMAC bond. Pricing of the issue will be set today.

Corporate Canada fills issuance gap

By Edward Alden in Toronto

After 30 years of high government budget deficits, Canadian investors are facing an unusual shortage of government bonds.

Ottawa is now effectively running a budgetary surplus and most of the provinces have also put their fiscal houses in order. As a result this year, for the first time since the early 1970s, the net issuance of all new government bonds will be near zero, meaning almost no real increase in government debt coming to the markets.

For Canadian corporations, the decline in government borrowing demands has been a boon.

"Corporate Canada was basically frozen out of the market and forced to go offshore for funds," said Steve McGirr, vice-chairman and head of debt capital markets at CIBC Wood Gundy in Toronto. That usually meant carrying short-term debt that was vulnerable to interest rate swings.

Corporations are now moving heavily into the longer-term debt market. In 1997 corporate debentures raised a record C$23bn, up from C$15bn the previous year and accounting for 23 per cent of the Canadian bond market. About 60 per cent of the decline in government issues, from C$55bn in 1996-97 to C$38bn in 1997-98, is being replaced on the corporate side, said Mike Mullins, chief economist at Midland Walwyn Capital.

Canada is also developing a market in lower-grade high-yield bonds, a major departure for historically conservative Canadian investors. And new products, such as asset-backed and mortgage-backed securities, are filling the gap for AAA rated fixed-income products.

The decline in government issues has also helped keep down interest rates generally, driving Canadian short and long-term yields below those of US bonds.

Sherry Cooper, chief economist at Nesbitt Burns, predicts softening government demand should contribute to a substantial further decline in interest rates.

However, if the shortage of government bonds is mostly goods news, it has also raised fears about liquidity and the possibility that large buyers could "squeeze" the market on certain issues.

Squeezes occur when bond auction participants gain control of an issue and withhold it from the secondary markets, forcing buyers who have entered into forward contracts to pay a premium to meet their obligations.

In a discussion paper issued last month, the Bank of Canada and the Department of Finance warned that "the increased frequency of such squeezes has brought into question the integrity of the market," potentially discouraging investors.

Ottawa is instituting three measures to try to alleviate the problem of squeezes.

First, the number of auctions has been cut to lift the size of the issues. Second, Ottawa is buying back older, less liquid bonds to help maintain supply of liquid new issues. Finally, changes to auction rules have been proposed to try to prevent market-cornering.

Russian issuers face chilly reception

By John Thornhill in Moscow

A growing number of Russian borrowers are planning to return to the international bond market this year, but they are likely to be given a far chillier reception than last year.

The government may place a lira-denominated eurobond as early as today as part of its plan to raise $1.4bn on the international capital markets this year. It also aims to raise a total of $3.4bn abroad this year while bankers predict that another $1bn of eurobonds may be issued by some of the stronger municipalities, such as Samara and Nizhny Novgorod.

However, the whole slew of regional and corporate debt issues that were thought to be in the pipeline last year seem unlikely to materialise. The after-shocks of the Asian financial crisis, which have increased the risk premiums for other emerging market bonds, have killed off many more marginal deals.

"The orgy of phantom mandates issued by many regions and companies in Russia last year was a joke," said one investment banker.

"The market has discriminated between those who can do good deals and those who should never even have dreamed of doing them. The Asian crisis has sifted the wheat from the chaff."

While the world's capital markets were awash with cash last year, several Russian regional and corporate borrowers made opportunistic eurobond issues at advantageous prices. However, the spreads on these issues shot out at the end of the year and have only slowly been narrowing again.

Some proposed Russian issues have also run into difficulties. *Almazy Rossii-Sakha*, the big diamond company, was forced to call off a planned $500m issue earlier this year. Yukos, the giant oil company, has also experienced problems with a recent loan arranged by *Goldman Sachs*.

Some regional authorities appear to have grown more sceptical of foreign investment banks selling them inappropriate "quick fix" solutions. "Russian borrowers have wised up to us *western carpet-baggers*," said one banker.

However, strong Russian companies are still keen to raise fresh finance from abroad and are able to do so – even if it proves a lot more expensive than before.

Last week, for example, Gazprom signed a $230m term loan facility arranged by Deutsche Bank and Enskilda Debt Capital Markets priced at 400 basis points over Libor.

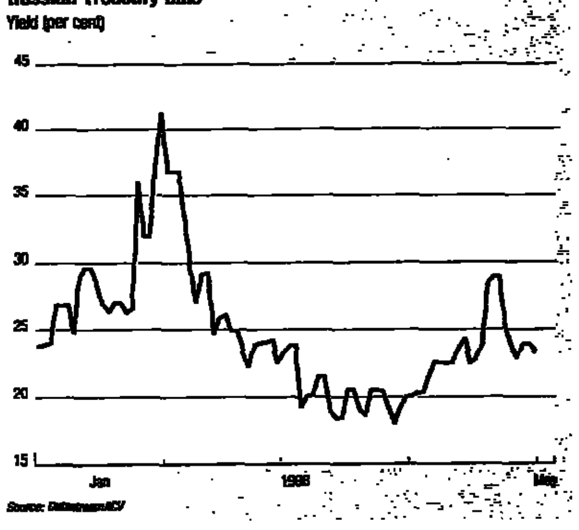
Andreas Rialas, of Deutsche Bank, who helped arrange the loan, estimates *Gazprom could have priced* the same deal at just 150 basis points over Libor before the Asian crisis.

Nevertheless, he claims there is still widespread international demand for issues from Russian companies with clean finances and a clear story about how they will use the proceeds.

"Investors are still happy to lend but only when they know the funds will not go to some Mickey Mouse bank that will put the money in GKOs [Treasury bills] or be used to refinance existing debt that cannot be sustained by a borrower's own cash flow," he said.

Russian Treasury bills

Yield (per cent)



WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

May 4	Red Date	Coupon	Bid Price	Bid Yield	Day chg yield	Wk chg yield	Month chg yld	Year chg yld
Australia	04/00	7.000	103.5936	5.03	+0.02	+0.13	+0.10	-1.46
	10/07	10.000	130.5373	5.72	+0.02	+0.11	+0.13	-2.15
Austria	09/99	7.000	103.6500	4.18	+0.03	+0.03	+0.06	+0.27
	07/07	5.625	104.2400	5.03	+0.03	-0.07	+0.12	-0.73
Belgium	01/00	4.000	99.6000	4.24	+0.05	+0.01	+0.15	+0.62
	03/07	6.250	108.4400	5.05	+0.05	-0.03	+0.13	-0.83
Canada	09/99	4.750	99.6000	5.06	+0.01	-0.11	+0.27	+0.44
	06/07	7.250	113.4000	5.35	+0.02	-0.09	+0.16	-1.14
Denmark	12/99	6.000	102.1800	4.59	+0.04	+0.02	+0.23	+0.46
	11/07	7.000	113.0900	5.22	+0.03	-0.07	+0.15	-1.23
Finland	01/99	11.000	104.7389	3.81	+0.04	-0.07	+0.10	+0.06
	04/06	7.250	114.7360	4.96	+0.02	-0.04	+0.16	-1.21
France	01/00	4.000	99.7602	4.14	-0.01	-0.01	+0.09	+0.47
	10/04	6.750	110.8500	4.76	-0.01	-0.03	+0.14	-0.47
	10/07	5.500	103.8600	4.97	-0.04	-0.07	+0.12	-0.70
	10/25	6.000	107.2575	5.48	-0.05	-0.06	+0.10	-1.06
Germany	09/99	4.000	99.9400	4.03	+0.04	+0.02	+0.12	+0.46
	11/04	7.500	114.8000	4.79	+0.06	-0.06	+0.13	-0.51
	07/07	6.000	107.4700	4.96	+0.05	-0.08	+0.13	-0.82
	07/27	6.500	114.4400	5.49	+0.03	-0.08	+0.10	-1.06
Ireland	04/99	6.250	100.9700	5.10	+0.09	-0.02	+0.34	-1.03
	08/06	8.000	118.8000	5.15	+0.04	-0.03	+0.20	-1.57
Italy	05/00	6.000	102.7900	4.53	-0.02	-0.10	+0.06	-2.21
	05/02	6.250	105.3700	4.76	-0.05	-0.09	+0.09	-2.29
	07/07	6.750	111.7600	5.12	-0.05	-0.10	+0.09	-2.44
	11/26	7.250	122.9000	5.63	-0.05	-0.08	+0.09	-2.46
Japan	03/00	6.400	110.9400	0.48	-0.02	-0.03	-0.17	-0.38
	12/02	4.800	118.9000	1.04	-	-0.04	-0.24	-0.71
	09/05	3.000	110.3900	1.50	-	-0.05	-0.24	-0.80
	09/17	3.000	110.1100	2.35	-	-0.06	-0.21	-0.66
Netherlands	11/99	7.500	104.8300	4.13	+0.04	-0.01	+0.09	+0.42
	02/07	5.750	105.7100	4.93	+0.03	-0.08	+0.11	-0.72
New Zealand	02/00	6.500	98.0571	7.89	-	+0.02	-0.10	+0.27
	11/06	8.000	107.5308	6.80	+0.03	-	-0.06	-1.02
Norway	01/99	9.000	103.1800	4.44	+0.01	-0.05	+0.21	+0.44
	01/07	6.750	109.3010	5.38	-0.02	-0.03	+0.21	-0.68
Portugal	03/99	8.500	103.5787	4.23	-0.01	+0.04	+0.11	-1.40
	02/07	6.625	110.7225	5.08	-0.03	-0.07	+0.12	-1.60
Spain	07/99	7.400	103.7819	4.16	-0.02	-0.15	+0.03	-1.29
	03/07	7.350	116.0715	5.06	-0.05	-0.09	+0.11	-1.76
Sweden	01/99	11.000	104.1800	4.71	+0.02	+0.01	+0.03	-0.19
	08/07	8.000	119.9090	5.23	-0.02	-0.07	+0.09	-1.96
Switzerland	03/00	5.000	105.5500	1.91	-	-0.05	+0.14	+0.15
	08/07	4.500	111.5700	3.03	-0.06	-0.12	+0.20	-0.51
UK	09/99	6.000	99.3281	6.55	+0.02	-0.11	-0.06	-0.25
	11/04	6.750	104.8594	5.85	+0.03	-0.19	-0.05	-1.40
	12/07	7.250	110.8281	5.76	+0.02	-0.16	-0.01	-1.61
	06/21	8.000	129.0781	5.72	+0.03	-0.12	+0.03	-1.81
US	10/99	5.625	100.0310	5.60	+0.02	-0.11	+0.17	-0.63
	11/04	7.875	111.5940	5.72	-	-0.13	+0.20	-0.79
	08/07	6.125	102.7340	5.74	+0.01	-0.12	+0.20	-0.90
	08/27	6.375	105.6950	5.96	-0.02	-0.14	+0.16	-0.91
ECU	01/00	4.000	99.5300	4.28	+0.01	+0.05	+0.20	+0.06
	04/07	5.500	103.4000	5.01	-0.04	-0.07	+0.11	-1.13

London closing. *New York mid-day. Source: Interactive Data/FT Information
Yields: Local market standard/Annualized yield basis. Yields shown for Italy exclude withholding tax at 12.5 per cent payable by nonresidents.

10 YEAR BENCHMARK SPREADS

May 4	Bid Yield	Spread vs Bunds	Spread vs T-Bonds
Australia	5.72	+0.76	+0.06
Austria	5.03	+0.07	-0.63
Belgium	5.05	+0.09	-0.61
Canada	5.35	+0.39	-0.31
Denmark	5.22	+0.26	-0.44
Finland	4.96	-	-0.70
France	4.97	+0.01	-0.69
Germany	4.96	-	-0.70
Ireland	5.15	+0.19	-0.51
Italy	5.12	+0.16	-0.54
Japan	1.50	-3.46	-4.16
Netherlands	4.93	-0.03	-0.73
New Zealand	6.80	+1.84	+1.14
Norway	5.38	+0.42	-0.28
Portugal	5.08	+0.12	-0.58
Spain	5.06	+0.10	-0.60
Sweden	5.23	+0.27	-0.43
Switzerland	3.03	-1.93	-2.63
UK	5.76	+0.80	+0.10
US	5.66	+0.70	-
ECU	5.01	+0.05	-0.65

Source: Interactive Data/FT Information
London closing. * New York closing.
Annualised yield basis.

EMERGING MARKET BONDS

May 4	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Mth's chge yld	Sprd vs US
EUROPE								
Croatia	02/02	7.000	BBB-	97.6486	7.72	+0.05	-0.45	+2.10
Poland	07/04	7.125	BBB-	102.7082	6.58	-0.02	-0.12	+0.94
Russia	06/07	10.000	BB-	96.9000	10.53	-0.14	-0.42	+4.88
LATIN AMERICA								
Argentina	09/27	9.750	BB	96.8000	10.08	-0.04	+0.13	+4.15
Brazil	05/27	10.125	BB-	97.6500	10.38	-0.05	-0.03	+4.45
Mexico	05/26	11.500	BB	121.1300	9.35	-0.06	-0.09	+3.44
ASIA								
China	07/06	7.750	BBB+	105.0116	6.92	+0.05	-0.36	+1.27
Philippines	10/16	8.750	BB+	96.2848	9.17	+0.05	-0.34	+3.40
Thailand	04/07	7.750	BBB-	95.8286	8.43	+0.05	-0.57	+2.78
AFRICA/MIDDLE EAST								
Lebanon	07/00	9.125	BB-	102.5000	7.83	+0.08	-0.03	+2.25
South Africa	10/06	8.375	BB+	102.8313	7.89	+0.05	-0.13	+2.24
Turkey	09/07	10.000	B	103.0931	9.47	+0.05	-0.21	+3.82
BRADY BONDS								
Argentina	03/23	5.500	BB	76.1300	8.26	+0.02	+0.05	+2.39
Brazil	04/14	5.000	BB-	82.7500	9.51	+0.07	+0.03	+3.77
Mexico	12/19	6.250	BB	84.5000	7.74	+0.02	+0.06	+1.93
Venezuela	03/20	6.750	B+	85.1703	8.22	+0.05	+0.14	+2.39

London closing. Prices in US$. Standard & Poor's ratings. Source: Interactive Data/FT Information.

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	103.21	103.52	+0.34	103.49	103.21	52,733	88,772
Sep	102.71	103.06	+0.34	102.71	102.71	3	3,912

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Jun	CALLS Sep	CALLS -	PUTS Jun	PUTS Sep	PUTS -
102	1.33	1.45	-	0.15	0.74	-
103	0.61	0.90	-	0.43	1.17	-
104	0.19	0.51	-	1.01	1.77	-
105	0.04	0.25	-	1.85	2.50	-

Est. vol. total, Calls 13,348 Puts 15,924. Previous day's open int., Calls 54,178 Puts 45,776 .

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	107.21	107.04	-0.25	107.24	106.83	64849	161763
Sep	106.64	106.69	-0.26	106.73	106.60	51	2905

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Jun	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jun	PUTS Jul	PUTS Aug	PUTS Sep
10700	0.40	0.51	0.68	0.80	0.36	0.82	0.99	1.11
10750	0.18	0.31	0.46	0.60	0.64	1.12	1.27	1.41
10800	0.07	0.18	0.31	0.44	1.03	1.49	1.62	1.75

Est. vol. total, Calls 13075 Puts 17823. Previous day's open int., Calls 199375 Puts 205647

NOTIONAL GERMAN BUND (BOBL) FUTURES (DTB) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	104.82	104.82	-0.01	104.84	104.63	90,618	286,081
Sep	-	104.67	-0.01	-	-	-	9,181

NOTIONAL GERMAN BOBL FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	104.80	-0.12	-	-	0	846
Sep	-	104.66	-0.11	-	-	0	0

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	119.04	118.80	-0.42	119.04	118.66	26574	124382
Sep	119.38	119.30	-0.40	119.38	119.30	66	9999

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Jun	CALLS Jul	PUTS Jun	PUTS Jul
11850	0.59	1.18	0.29	0.38
11900	0.30	0.87	0.50	0.57
11950	0.14	0.62	0.84	0.82

Est. vol. total, Calls 5481 Puts 2957. Previous day's open int., Calls 85182 Puts 149565

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	108.55	108.73	+0.26	108.85	108.52	50,986	83,904
Sep	-	108.42	+0.20	-	-	-	586

UK

NOTIONAL 5 YEAR GILT FUTURES (LIFFE) £100,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	103.33	103.26	-0.10	103.33	103.30	50	10089
Sep	-	104.51	-0.10	-	-	0	0

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	109-05	109-06	-0-04	109-14	109-01	20558	237105
Sep	-	109 33	-0.14	-	-	0	6

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS May	CALLS Jun	PUTS May	PUTS Jun
108	0-37	0-60	0-03	0-26
109	0-02	0-27	0-32	0-57
110	0	0-09	1-30	1-39

Est. vol. total, Calls 6114 Puts 5290. Previous day's open int., Calls 59054 Puts 30858

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Jun	120-14	120-14	+0-03	120-14	120-00	377,447	703,884
Sep	120-00	120-05	+0-02	120-05	119-27	6,095	102,733
Dec	-	119-25	-	-	-	103	36,833

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	131.51	131.57	-	131.60	131.47	1090	n/a
Sep	131.47	131.52	-	131.54	131.47	72	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	102.52	103.16	+0.32	102.52	102.36	75	5,132

US CORPORATE BONDS

May 1	Red date	Coupn	S & P Rating	Bid price	Bid yield	Day's chge yld	Wk's chge yld	Sprd v Govts
UTILITIES								
Pac Bell	07/02	7.25	AA-	104.0223	6.13	-0.01	+0.02	+0.51
NY Tel	08/25	7.00	A+	99.1806	7.06	-0.02	+0.02	+1.13
CWE	05/08	8.00	BBB	110.4005	6.56	-0.02	+0.04	+0.90
FINANCIALS								
GECC	05/07	8.75	AAA	117.1831	6.23	-0.01	+0.05	+0.57
Banc One	08/02	7.25	A+	103.6853	6.24	-0.02	+0.02	+0.82
US West	01/07	7.30	BBB+	105.0493	6.52	-0.02	+0.04	+0.86
INDUSTRIALS								
WMX Tech	04/99	6.25	BBB	100.0875	6.18	-0.01	-	+1.04
Wal Mart	05/02	6.75	AA	102.2361	6.11	-0.01	+0.02	+0.49
Dayton Hud	06/21	9.70	BBB+	132.0587	6.90	-0.02	+0.03	+0.97
AGENCIES								
FHLMC	04/07	7.14	N/A	107.7946	5.98	-0.02	+0.04	+0.33
SLMA	03/00	7.50	N/A	102.9986	5.75	-0.02	+0.02	+0.18
FNMA	02/18	8.95	N/A	130.6726	6.22	-0.02	+0.02	+0.29
FFCB	06/06	8.95	N/A	119.1720	5.92	-0.02	+0.04	+0.26
HIGH YIELD								
Stone Cont	02/01	9.88	B	103.0000	0.00	-	-	-
AK St	12/01	9.13	BB-	106.0000	0.00	-	-	-
Pacalta	06/04	10.75	B-	102.7500	0.00	-	-	-

NY closing. Standard & Poor's ratings. Yields: semi-annual basis. Source: Interactive Data/FT Information

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.57
Prime rate	8½	Two month	-	Three year	5.62
Broker loan rate	7¼	Three month	5.02	Five year	5.63
Fed.funds	5½	Six month	5.26	10-year	5.66
Fed.funds at intervention	-	One year	5.41	30-year	5.94

INTERNATIONAL BONDS

May 4	Red date	Coupon	S & P Rating	Bid price	Bid yld	Day's chge yld	Mth's chge yld	Spread v Govts
EURO DM								
EIB	02/07	5.750	AAA	105.1600	5.01	+0.08	+0.15	+0.12
Spain	01/07	5.750	AA	104.7200	5.06	+0.05	+0.16	+0.17
Philip Morris	03/04	5.375	A	101.2800	5.11	-0.11	+0.14	+0.44
Finland FRN	09/02	3.570	AA	100.6136	4.08	+0.01	+0.14	-0.31
EURO FFR								
Austria	01/04	5.500	AAA	103.5400	4.77	-0.02	+0.14	+0.08
Abbey Nat	02/04	6.000	AA	105.5000	4.88	-0.01	+0.14	+0.19
Cred Foncier	02/04	9.125	A	119.9700	5.05	-0.03	+0.13	+0.36
3CIF FRN	12/01	3.625	AA-	99.8137	4.24	-0.04	+0.11	-0.02
EURO LIRA								
EIB	02/07	7.000	AAA	112.8800	5.14	+0.06	+0.05	+0.09
Abbey Nat	02/02	6.800	AA	106.5800	4.85	+0.05	+0.06	+0.20
Walt Disney	06/00	8.625	A	107.3800	4.87	+0.07	+0.04	+0.43
EIB FRN	03/01	5.356	AAA	100.1168	4.42	-0.05	+0.10	-0.11
EURO £								
EIB	12/07	7.625	AAA	110.8133	6.08	+0.02	-0.02	+0.27
Dresdner Bk	12/07	7.750	AA-	108.1399	6.57	+0.02	-0.02	+0.76
British Gas	03/00	7.625	A+	101.3448	6.83	+0.02	-0.09	+0.28
Abbey Nat FRN	02/02	7.713	AA	99.9620	5.99	+0.02	-0.08	-0.16
EURO $								
EIB	04/07	7.250	AAA	108.1800	6.04	-0.01	+0.19	+0.39
ABN Amro	06/07	7.125	AA-	104.7978	6.42	-	+0.19	+0.77
Quebec	01/07	7.000	A+	104.4961	6.32	-	+0.15	+0.67
Citicorp FRN	02/04	5.734	A+	100.1126	5.69	-	+0.08	+0.05
EURO C$								
Bayer L-Bk	08/04	9.500	AAA	120.0363	5.61	-	+0.06	+0.14
Toronto	05/04	8.500	AA+	114.7066	5.57	-	+0.10	+0.10
Bell Canada	07/09	10.625	A+	105.6909	5.51	-	+0.11	+0.96
Deutsche B FRN	09/02	5.875	AAA	101.6829	5.44	-	+0.10	+0.07
EURO YEN								
World Bank	03/02	5.250	AAA	116.5500	0.89	-	-0.25	+0.17
Spain	03/02	5.750	AA	118.4000	0.90	-	-0.24	+0.18
Cred Foncier	08/02	4.750	A	113.8383	1.38	-	-0.25	+0.66
Italy FRN	07/38	0.711	AA	100.3522	0.14	-	-0.13	-0.10

London closing. Source: Interactive Data/FT Information
Standard & Poor's ratings. Yields: Local market standard/Annualised basis.

FTSE Actuaries Govt. Securities

UK Gilts Price Indices	Fri May 1	Day's change %	Thu Apr 30	Accrued interest	xd adj ytd
1 Up to 5 years (18)	120.58	0.24	120.29	2.46	3.47
2 5-15 years (20)	165.18	0.60	164.19	3.43	2.60
3 Over 15 years (5)	206.06	0.92	204.18	4.15	1.99
4 Irredeemables (4)	260.32	1.34	256.88	5.03	2.21
5 All stocks (47)	157.00	0.57	156.11	3.23	2.96

UK Indices

Index-linked	Fri May 1	Day's change %	Thu Apr 30	Accrued interest	xd adj ytd
6 Up to 5 years (1)	215.45	0.11	215.21	0.64	3.13
7 Over 5 years (10)	225.82	0.40	224.92	1.54	2.37
8 All stocks (11)	223.66	0.38	222.84	1.46	2.43

Yields	Low coupon yield May 1	Apr 30	Yr ago	High	Low	Medium coupon yield May 1	Apr 30	Yr ago	High	Low	High coupon yield May 1	Apr 30	Yr ago	High	Low
5 yrs	5.88	5.97	7.39	6.45 2/1	5.88 1/5	5.98	6.07	7.42	6.54 2/1	5.98 1/5	5.99	6.08	7.48	6.59 2/1	5.99 1/5
15 yrs	5.71	5.80	7.78	6.29 2/1	5.69 14/4	5.74	5.82	7.77	6.29 2/1	5.72 14/4	5.84	5.92	7.83	6.41 2/1	5.82 6/4
20 yrs	5.71	5.79	7.81	6.29 2/1	5.69 14/4	5.73	5.81	7.80	6.27 2/1	5.70 14/4	5.84	5.92	7.83	6.40 2/1	5.82 6/4
Irred.†	5.64	5.92	7.83	6.40 2/1	5.61 6/4										

Index-linked	Inflation rate 5% May 1	Apr 30	Yr ago	High	Low	Inflation rate 10% May 1	Apr 30	Yr ago	High	Low
Up to 5 yrs	2.78	2.77	3.31	3.85 2/1	2.59 12/2	1.97	1.95	2.56	2.33 9/1	1.77 10/2
over 5 yrs	2.79	2.82	3.64	3.07 4/2	2.77 6/4	2.50	2.61	3.43	2.87 4/2	2.27 6/4

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.
Base values: All Gilts Indices 31/12/75 = 100.00 and Index-Linked 30/4/82 = 100.00. * 1998 Highs and lows. Due to technical problems, Friday's table was incorrect.

FT Fixed Interest Indices

	May 1	Apr 30	Apr 29	Apr 28	Apr 27	Yr ago	High*	Low*
Govt. Secs. (UK)	105.36	104.77	104.49	104.33	104.32	94.85	105.60	93.31
Fixed Interest	141.83	141.41	141.28	141.84	117.31	142.87	115.32	[illegible]

 * for 1998. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 142.87 (21/04/98), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

UK GILTS PRICES

[illegible]

● "Tap" stock. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. HSBC Greenwell.

ECB spat fails to dent D-Mark

MARKETS REPORT

By Simon Kuper

To those who think markets usually overreact to news, yesterday was a salutary lesson. Currency traders remained icily calm despite this weekend's spat over the European central bank presidency at the Brussels summit. The D-Mark fell modestly early on, but by late US trading had made up all its losses.

At the summit on Saturday France had persuaded the other 14 European Union countries to let its man, Jean-Claude Trichet, succeed Wim Duisenberg as head of the ECB after about four years, even though the presidential term is supposed to be 8 years.

The decision was felt to damage the ECB's credibility. Carl Weinberg, chief economist at High Frequency Economics in New York, voiced the consensus when he said that by rejecting Mr Duisenberg, "eminently qualified for the job", the EU members had subjugated common sense "in deference to an untenable French demand".

Some cynics said that if politicians could decide who ran the ECB, they could also persuade the bank to keep interest rates down.

However, most in the market said the fudge signified little for future policy. Almost all agreed that despite the spat the ECB would be an independent bank with a tough stance against inflation. Market strategists noted that most of the appointees to the ECB board, including Mr Trichet, were hawks. ABN-Amro commented: "For all their political interference, the French authorities have built up an anti-inflationary record equal to the Germans in recent years."

John Atkin, chief economist at Citibank in London, said even the fudged choice of chief was "better than ending the summit without an appointment", a scenario that had seemed possible.

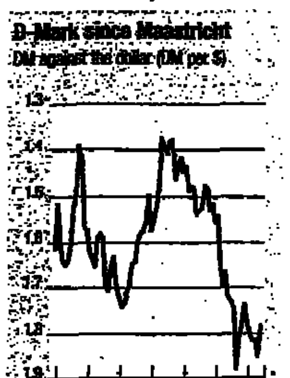
When markets opened the D-Mark fell about 1 pfg against the dollar. But by late US trading it had returned to DM1.7795 against the dollar, its London Friday closing level. Volumes were thin, even though many London traders were working on the Bank Holiday.

Some in the market argued that the ECB spat would help the D-Mark, by prompting the Bundesbank to raise German interest rates sooner than planned. The idea was that the bank would thus prevent a sell-off of D-Marks and underline that European monetary policy remained tight. The bank might be tempted to do so, strategists said, because its warnings against an ECB fudge had been ignored.

Klaus-Dieter Kuehbacher, Bundesbank council member, rejected the notion of raising rates in protest at the fudge, but he did say the deal violated the Maastricht treaty and was not a good omen for the ECB.

D-Mark since Maastricht

DM against the dollar (DM per $)



Source: Datastream/ICV

The Euromark futures contract for September 1998 dropped 4 basis points yesterday, reflecting the higher prospects of rate rises.

Also supporting the D-Mark was the fact that Emu is now all but wrapped up. The dollar, Swiss franc and sterling have waved goodbye to their status as safe havens from doubts over Emu.

■ Mr Atkin said the ECB row had received so much press coverage mainly because nothing else surprising had happened at the summit. Eleven countries were chosen to found European monetary union, as forecast, and they are to enter the euro at their present central parity rates within the European exchange-rate mechanism. The Irish punt fell on the news that its central rate would almost certainly not be revalued again.

Sweden had already decided not to join Emu yet. But Jeremy Hawkins, chief economist at Bank of America in London, noted that the policymakers had voted explicitly to exclude the Swedish krona on the grounds that it had not joined the ERM. He said this implied the pound might have to join the ERM before entering Emu. That will annoy Downing Street.

■ Eight out of 12 analysts surveyed by Reuters expect the Bank of Spain to cut its key money market rate today. Most think rates will fall 25 basis points to 4.25 per cent, as European rates converge ahead of Emu.

■ POUND IN NEW YORK

May 4	Latest	Prev. close
£ spot	1.6660	1.6650
1 mth	1.6634	1.6635
3 mth	1.6589	1.6590
1 yr	1.6440	1.6440

■ OTHER CURRENCIES

May 4	£	$
Czech Rp	54.1755 - 54.2731	32.5320 - 32.5710
Hungary	349.513 - 349.806	209.889 - 209.930
Iran	4996.90 - 4995.90	3000.00 - 3000.00
Kuwait	0.5088 - 0.5091	0.3054 - 0.3055
Peru	4.7195 - 4.7273	2.8340 - 2.8370
Poland	5.8187 - 5.8271	3.3740 - 3.3770
Russia	10.2116 - 10.2228	6.1320 - 6.1350
U.A.E.	6.1163 - 6.1207	3.6728 - 3.6732

POUND SPOT FORWARD AGAINST THE POUND

May 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.8811	+0.0229	707 - 914	20.9759	20.8487	20.8084	4.2	20.6887	3.7	20.2182	3.2	103.0
Belgium	(BFr)	61.2348	+0.0642	831 - 865	61.7260	61.1790	61.0332	4.0	60.6785	3.6	59.3226	3.1	102.3
Denmark	(DKr)	11.3226	+0.0169	165 - 287	11.3728	11.3140	11.2866	3.8	11.2264	3.4	11.0052	2.8	104.4
Finland	(FM)	9.0114	+0.0187	019 - 208	9.0570	9.0010	8.9807	4.1	8.9292	3.6	8.7316	3.1	80.6
[illegible]													

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

May 4		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan index
Europe													
Austria	(Sch)	12.5352	+0.0153	327 - 378	12.5820	12.5250	12.5114	2.3	12.4727	2.0	12.3027	1.9	102.9
Belgium	(BFr)	36.7600	+0.043	400 - 800	37.0530	36.7400	36.6972	2.0	36.5615	1.9	36.0975	1.8	101.7
Denmark	(DKr)	6.7971	+0.0106	955 - 987	6.8367	6.7893	6.7863	1.9	6.7681	1.7	6.6966	1.5	104.0
Finland	(FM)	5.4097	+0.0107	056 - 137	5.4357	5.4050	5.3998	2.2	5.3833	2.0	5.3132	1.8	80.3
[illegible]													

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	Calls Jun	Calls Sep	Calls Dec	Puts Jun	Puts Sep	Puts Dec
95375	0.115			0.110		
95500	0.070	0.370	0.460	0.190	0.060	0.060
95625	0.040			0.285		

Est. vol. total, Calls 5246 Puts 2721. Previous day's open int., Calls 326930 Puts 291169

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

BASE LENDING RATES

[illegible]

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OFFSHORE AND OVERSEAS

BERMUDA (FSA RECOGNISED)

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (FSA RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (FSA RECOGNISED)

AIB Fund Management Ltd

Aberdeen Prolific International Fund Plc

Henderson Crosthwaite Investment Co

Lazard Investment Funds Ltd

Bank of Ireland Unit Managers Ltd - Contd.

Hanmi Korea Venture Fund

Skandia Select Fund Plc

Societe Generale Group

Super Phoenix Fund

Super Phoenix Fund II

Trainer Wortham & Company Inc

[illegible]

ISLE OF MAN (FSA RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

JERSEY (FSA RECOGNISED)

[illegible]

Prudential Fund Managers (Jersey) Ltd

Royal Bank of Scotland Fd Mgrs (Jersey) Ltd

Royal Bank of Scotland International Ltd

[illegible]

JERSEY (REGULATED)(**)

[illegible]

LUXEMBOURG (FSA RECOGNISED)

[illegible]

هدية من الأهرام

Offshore Funds and Insurances

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Aberdeen Fund Mngrs (Luxembourg) Ltd

American Phoenix Investment Portfolios

Fleming Group - Contd.

Foreign & Colonial Emerging Markets Ltd

Foreign & Colonial Portfolios Fd Sicav

Mercury Asset Management - Contd.

Morgan Stanley Sicav

ACM Offshore Funds - Contd.

Credit Suisse Asset Mgmt Funds - Contd.

Merrill Lynch Asset Management - Contd.

Swiss Bank Corporation - Contd.

Equitable Life (International)

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

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OTHER OFFSHORE FUNDS

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Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (May 4 / Sch)

BELGIUM/LUXEMBOURG (May 4 / Frs.)

CZECH REP (May 4 / Koruna)

DENMARK (May 4 / Kr)

FINLAND (May 4 / Mkk)

FRANCE (May 4 / Frs.)

GERMANY (May 4 / Dm.)

GREECE (May 4 / Drachma)

ITALY (May 4 / Lire)

NETHERLANDS (May 4 / Fls.)

NORWAY (May 4 / Kroner)

POLAND (May 4 / Zloty)

PORTUGAL (May 4 / Escudo)

SPAIN (May 4 / Pts.)

SWEDEN (May 4 / Kronor)

SWITZERLAND (May 4 / Frs.)

TURKEY (May 4 / TL Lira)

PACIFIC

JAPAN (May 1 / Yen)

AUSTRALIA (May 4 / Aust$)

HONG KONG (May 4 / H.K.$)

INDONESIA (May 4 / Rupiah)

MALAYSIA (May 4 / MYR)

NEW ZEALAND (May 4 / NZ $)

SINGAPORE (May 4 / S$)

SOUTH KOREA (May 4 / Won)

TAIWAN (May 4 / TW $)

THAILAND (May 4 / Baht)

AMERICAS

CANADA

TORONTO (May 4 / Can $)

4 pm close

MONTREAL (May 4 / Can $)

4 pm close

MEXICO (May 4 / Peso)

12.30pm

AFRICA

SOUTH AFRICA (May 4 / Rand)

FT/S&P ACTUARIES WORLD INDICES

Emerging markets: IFC investable indices

NEW YORK STOCK EXCHANGE PRICES

4 pm close May 4

1998 High	Low	Stock	Div	Yld %	P/E	Vol 100s	High	Low	Close Quote	Chng Prev. Close
		- A -								
32⅞	25⅞	AAR x	0.34	1.3	20	708	27½	27⅛	27⅜	+¼
44⅞	35⅞	AMP x	1.00	2.7	19	8132	40⅛	38⅞	40	+⅛
163	121	AMR			11	4371	153⅞	149¼	149¼	-3⅛
25⅞	19⅞	ASA	0.60	3.2	16	668	25	24½	25	+⅞
[illegible]										
		- X - Y - Z -								
[illegible]										
114½	[illegible]	Xerox	1.44	1.3	25	7047	u114¼	113⅝	114	
65⅛	57¼	Xtra Corp	0.88	1.6	18	168	61¼	60	60⅛	-⅛
28⅞	22½	Yankee Egy	1.24	5.7	20	31	23⅞	23⅝	23⅝	+⅛
49⅞	34½	York Int	0.48	1.0	44	536	49⅞	48	48⅝	+1⅛
16¼	9⅝	Zapata x	0.28	2.2	31	333	13	12	12½	-⅜
7⅛	2⅞	ZenithEl				4033	3⅝	3½	3⅝	-⅛
30½	24½	Zenith Nat x	1.00	3.4	18	70	29¼	28⅞	29⅛	+⅛
8⅝	7⅛	Zenix Inc	0.73	8.8		161	7½	7⅜	7½	
33⅞	25	Zero	0.12	0.4	18	84	30⅞	30⅞	30⅞	
14⅛	12⅞	ZweigFd	1.32	10.3		654	12⅞	12⅞	12⅞	
9⅞	8⅝	Zweig Tot	0.84	9.5		1374	8⅞	8⅞	8⅞	+⅛

Price data supplied by Extel, part of FT Information

Yearly highs and lows for NYSE reflect the period from Jan 1 1998. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Volume figures are unofficial.
d-new yearly low. P/E price-earnings ratio. vol- volume. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full. ¶ Dealings suspended.

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GLOBAL EQUITY MARKETS

US INDICES

Dow Jones	May 1	Apr 30	Apr 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Industrials	9147.07	9063.37	8951.52	9184.94 (21/4)	7580.42 (9/1)	9184.94 (21/4/98)	41.22 (8/7/32)
Home Bonds	104.86	104.94	104.52	105.48 (15/1)	104.52 (29/4)	105.48 (15/1/98)	54.99 (1/10/81)
Transport	3485.42	3500.17	3492.84	3686.02 (16/4)	3194.36 (9/1)	3686.02 (16/4/98)	13.23 (8/7/32)
Utilities	283.56	284.47	278.28	291.18 (2/4)	262.66 (9/1)	291.18 (2/4/98)	16.53 (8/7/32)

DJ Ind. Day's High 9211.84 (9211.84) Low 9015.54 (9015.54) (Theoretical) Day's High 9147.82 (9129.64) Low 9066.61 (9053.51) (Actual)

Standard and Poors	May 1	Apr 30	Apr 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Composite‡	1121.00	1111.75	1094.62	1130.54 (22/4)	927.69 (9/1)	1130.54 (22/4/98)	4.40 (1/6/32)
Industrials¶	1304.57	1295.16	1276.23	1311.46 (22/4)	1077.40 (9/1)	1311.46 (22/4/98)	3.52 (30/6/32)
Financial¶	136.99	134.91	132.36	140.63 (14/4)	110.85 (9/1)	140.63 (14/4/98)	7.13 (4/9/74)
Others							
NYSE Comp.	581.91	577.37	568.30	585.82 (22/4)	487.47 (9/1)	585.82 (22/4/98)	4.64 (25/4/42)
Amex Comp	749.66	746.52	742.32	783.67 (22/4)	646.41 (12/1)	783.67 (22/4/98)	524.20 (16/7/98)
NASDAQ Cmp	1873.44	1868.41	1851.64	1917.81 (22/4)	1503.22 (9/1)	1917.81 (22/4/98)	54.87 (3/10/74)
Russell 2000	484.94	482.89	476.98	491.41 (21/4)	410.89 (12/1)	491.41 (21/4/98)	123.36 (7/12/93)

RATIOS

	Apr 24	Apr 17	Apr 3	Year ago
Dow Jones Ind. Div. Yield	1.55	1.53	1.56	1.82

	Apr 29	Apr 22	Apr 15	Year ago
S & P Ind. Div. yield	1.35	1.29	1.31	1.75
S & P Ind. P/E ratio	30.29	31.13	30.89	22.89

US DATA

MARKET ACTIVITY

Volume (million)	May 1	Apr 30	Apr 29
NYSE	575.180	695.512	654.230
Amex	27.233	33.190	36.002
NASDAQ	778.855	840.160	800.161

NYSE	May 1	Apr 30	Apr 29
Issues Traded	3,462	3,492	3,479
Rises	1,831	2,343	1,890
Falls	1,102	726	1,043
Unchanged	529	423	546
New Highs	106	120	48
New Lows	17	25	49

NYSE TRADING ACTIVITY

Volume : 654,948,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Compaq	13,354,300	29⅝	+1⅛
Cendant	7,496,100	24⅛	-⅛
BayNtwks	5,924,300	24⅛	+⅛
EDS	5,888,300	38⅝	-4⅛
PhilMorr	5,489,400	37⅛	+⅛
McDonld	4,033,500	82⅛	+⅞
Merck	3,865,600	116⅛	-4⅛
Lilly	3,766,600	66½	-3⅛
Pfizer	3,603,600	112⅞	-1⅛
LucentTch	3,581,500	75⅛	-1⅛

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
PrideInt	26⅞	+2⅝	+10.8
WrldEnt	54⅛	+4⅞	+9.4
EngyVntrs	58	+4⅛	+8.9
Smithln	63⅛	+4⅛	+7.8
Downs			
EDS	38⅛	-4⅛	-10.2
CPI Corp	24	-1⅞	-7.5
Shorewood	24	-1⅞	-7.5
Lilly	66½	-3⅛	-4.4

NASDAQ TRADING ACTIVITY

Volume :274,628,000

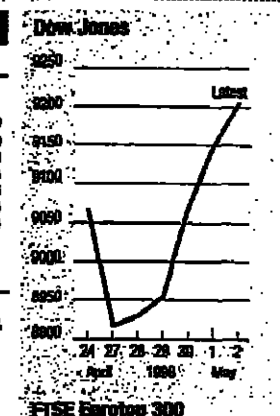
ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
DellComp	11,851,000	84⅛	+3⅛
Intel	11,496,600	82⅛	+1⅛
Infomx	11,250,800	8⅛	-⅛
Adaptec	10,865,200	19⅛	-3⅞
WrldCm	9,137,100	42⅛	
Micsft	8,950,600	88⅛	-½
Oracle	8,722,400	25⅛	-⅛
TCI GpA	8,167,200	34⅛	+2⅛
FORESy	5,879,200	23⅞	+⅞
CmcstASp	5,442,500	37⅛	+1⅛

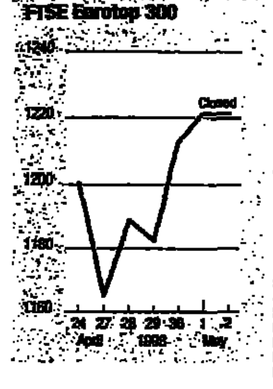
BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
TelCmCIB	35⅛	+5	+16.3
Mycogn	22⅞	+2⅛	+11.3
StelCmx	36⅛	+3⅛	+11.2
Globlnds	25⅛	+2⅛	+10.7
Downs			
SunrAsn	36⅛	-8⅛	-19.1
Adaptec	19⅛	-3⅞	-16.6
ElecSys	47⅛	-8⅛	-15.6
DcmtLog	15⅛	-2⅛	-11.9

Dow Jones



FTSE Eurotop 300



JAPAN

	May 1	May 30	Apr 29	1998 High	1998 Low	Since compilation High	Since compilation Low
Nikkei 225	15601.10	15641.26	(c)	17264.34	14664.44	38915.9	85.25

Day's high 15665.78. Day's low 15463.60

TOKYO TRADING ACTIVITY

Volume : 308,600,000

ACTIVE STOCKS

Friday	Stocks traded	Close price	Day's change
Np Steel Cp	12,587,000	214	+1
Fesuko Cp	7,915,000	74	-1
Fujita Cp	5,650,000	99	
Nissan Mtr	5,018,000	414	-13
Mitsbi Hvy	4,613,000	482	-8
Fujitsu	4,331,000	1555	+10
Sakura Bk	3,917,000	440	-15
Showa MI Ind	3,815,000	221	+2
Fuji Hvy Ind	3,491,000	594	+1
Toshiba Cp	3,391,000	613	-1

BIGGEST MOVERS

Friday	Close price	Day's change	Day's chge %
Ups			
Shoho Mata	184	+28	+18
Ohkura Elct	308	+43	+16.2
Chemup Cp	558	+56	+11.2
Tokyo Tour	200	+18	+9.9
Downs			
Yakagi Cp	245	-36	-12.8
Cabin Co	160	-20	-11.1
Sridoyo Kgy	141	-17	-10.8
Nakano	243	-27	-10

FRANCE

	May 4	May 1	Apr 30	1998 High	1998 Low	Since compilation High	Since compilation Low
CAC 40	3974.25	(c)	3980.92	3986.75	2862.54	3986.75	984.61

Day's high 3985.51. Day's low 3945.25

PARIS TRADING ACTIVITY

Volume : 484,637,390

ACTIVE STOCKS

Monday	Stocks traded	Close price	Day's change
Ass Gen Fr	3,206,051	389.9	-9.9
Rno-Pinc A	1,999,909	308	+13.9
France Tel	1,280,292	334.1	+6.8
Axa-UAP	1,045,696	731	+25
Alcatel Alst	989,394	1155	+40
Usinor	919,048	92.8	+2.8
Elf Aquitaine	772,304	808	+19
Sq Natl Paris	637,608	516	+12
Schneider	636,535	478.7	+28.7
Total B	632,829	735	+20

BIGGEST MOVERS

Monday	Close price	Day's change	Day's chge %
Ups			
Immob de Lyon	654	+89	+15.5
Eridania Corte	1025	+130	+14.5
Altran Tch	1080	+131	+13.7
Caged	1170	+135	+13
UAP	291.2	+28.7	+10.9
Downs			
Ausseddt-Rey	280	-30	-9.7
Orfevre Chr	1329	-141	-9.9
Has Casino	790	-70	-8.2

GERMANY

	May 4	May 1	Apr 30	1998 High	1998 Low	Since compilation High	Since compilation Low
DAX	5314.66	(c)	5107.44	5442.80	4087.28	5442	931.18

Day's high 5337.22. Day's low 5251.41.

FRANKFURT TRADING ACTIVITY

Volume : 15,197,173

ACTIVE STOCKS / BIGGEST MOVERS

[illegible]

UK

	May 1	Apr 30	Apr 29	1998 High	1998 Low	Since compilation High	Since compilation Low
FTSE 100	6010.3	5928.3	5833.1	6105.80	5058.90	6105.8	986.9

Day's high 6025.1. Day's low 5928.3

LONDON TRADING ACTIVITY

Volume : 679,800,000

ACTIVE STOCKS / BIGGEST MOVERS

[illegible]

INDEX FUTURES

S&P 500	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	1129.60	1131.00	+1.40	1133.50	1128.80	88,767	337,259
Sep	-	1141.90	-	-	-	840	12,384

Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	15600.0	15530.0	-	15610.0	15420.0	17,136	192,336
Sep	15500.0	15530.0	-	15530.0	15500.0	3	12,819

Open interest figures for previous day.

CAC-40 (200 x index)	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
May	3963.5	3963.0	-18.5	3985.0	3946.0	980	38,360
Jun	3930.0	3942.5	-11.0	3950.0	3930.0	83	19,568

DAX	Open	Sett Price	Change	High	Low	Est. vol.	Open int.
Jun	5270.0	5345.5	+92.0	5372.0	5262.0	20,941	128,260
Sep	5321.0	5383.5	+106.0	5409.5	5321.0	50	17,241

OMX / SOFFEX: [illegible]

WORLD MARKETS AT A GLANCE

Country	Index	May 4	May 1	Apr 30	1998 High	1998 Low	Yield	P/E
[illegible]								

THE NASDAQ STOCK MARKET

4 pm close May 4

[illegible]

THE NASDAQ STOCK MARKET

[illegible]

AMEX PRICES

4 pm close May 4

[illegible]

EASDAQ

[illegible]

STOCK MARKETS

Dow surges on renewed merger wave

AMERICAS

US shares were up across the board in morning trading, with the Dow Jones Industrial Average climbing above 9,200, *writes John Labate in New York.*

A further round of mergers helped the latest buying spree and the Dow climbed more than 100 points in early trading before easing back at midsession to a gain of 60.29 to 9,207.36.

The broader Standard & Poor's 500 was up 2.99 to 1,123.99. The Nasdaq composite was 7.90 higher at 1,881.34.

"Last week's universal pessimism set us up for a bounce," said Bill Meehan, chief market analyst at Cantor Fitzgerald. However, he made it clear that concerns about an overheated market were again an issue, especially as the second-quarter earnings season was approaching. "At some point in time, positive earnings surprises on very low expectations are not going to cut it," Mr Meehan added.

Two new corporate deals helped boost sentiment. Auto parts company Echlin surged more than 10 per cent or $5 to $52 1/16 after it said it was merging with Dana.

The news sent shares of SPX, a rival bidder, up $2 3/16 to $74 1/16, while Dana shares fell back $1¾ to $57⅞.

In the day's other major deal, Union Texas Petroleum gained 39 per cent or $8¼ to $28⅝ after it said it would merge with Arco. Arco slid $1 11/16 to $78½.

Among Dow components, Eastman Kodak climbed $1 5/16 to $74 13/16 after Lehman Brothers rated the stock a "buy". AT&T rose $2 1/16 to $62 13/16 on news of a new contract with internet company Lycos. Drug producer EntreMed soared $45 7/16 to $57½ or 376 per cent after a newspaper mentioned the progress of one of its products as a cancer treatment.

TORONTO pushed higher. Among heavyweight sectors, both golds and banks were mixed. The 300 composite index was 34.49 higher at 7,736.60 at noon.

The better tone to the gold price allowed selected golds to recover modestly. Barrick gained 15 cents to C$31.65. In contrast, Placer Dome shed 20 cents to C$20.80.

Royal Bank of Canada and Bank of Nova Scotia both added 10 cents to C$85.00 and C$39.60 respectively. But Toronto-Dominion Bank gave up 45 cents to C$64.75.

The upturn for international oil prices lifted Gulf Canada 15 cents to C$7.85.

In the broader market, Seagram, an active stock lately on talk of a big UK acquisition, came off 70 cents to C$60.30.

São Paulo drops back

SAO PAULO moved lower in light morning trading. "It's a slow start after the three-day weekend. Selling has not been that heavy," said one broker.

Petrobrás was the laggard among blue chips, slipping R$2.07 to R$284. Telebrás came off R$0.29 to R$139.20.

At the midsession count, the Bovespa index was off 81.00 at 11,596.

MEXICO CITY lost ground following heavy, results-driven selling at Cifra, which retreated 1.82 pesos to 13.08 pesos in solid two-way volumes. Brokers said the shake-out at Cifra was the direct result of disappointing first-quarter figures, released late last week.

At midsession, the IPC index was 49.07 lower at 5,049.46.

Wall St takes credit for big European gains

EUROPE

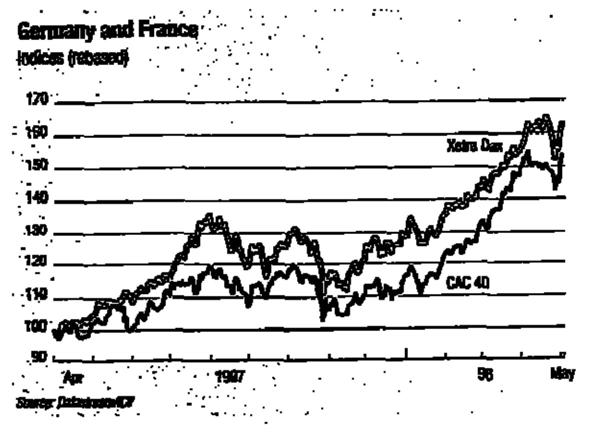
Shares raced ahead across Europe, but gains were said to stem from the strength of Wall Street – up more than 300 points between the close last Wednesday and the end *of European trading yesterday* – rather than Euro-summit relief.

Record highs were hit in some peripheral centres, notably Helsinki and Oslo. **PARIS** came close, too, ending within 20 points of best-ever levels after a rise of 93.33 to 3,974.25 on the CAC 40 index. Motor shares powered forward on news of higher car sales for the sixth month running. Renault rose FFr11.10 to FFr290.10 and Peugeot FFr45 to FFr1,069.

Oils gained ground after Brent Blend, the international benchmark for oil prices, added to Friday's strong gains. Total rose FFr20 to FFr735 and Elf Aquitaine FFr19 at FFr808.

*Hopes for upbeat first-*quarter sales provided bright spots, notably Schneider and Alcatel Alsthom, which rose FFr28.70 or 6.4 per cent to FFr478.70 and FFr40 to FFr1,155 respectively.

Worries about softening European currencies led dollar-sensitive *Rhône Poulenc*



higher. The shares ended FFr13.90 better at FFr308.

FRANKFURT extended last week's rally, rising 2 per cent and taking the Xetra Dax index up 100.43 to 5,341.66.

Utility Veba gained DM6.90 or 5.8 per cent to DM126.40 and retail group Metro's preference shares rose DM3.50 or 5.4 per cent to *DM68.50. Traders said* both rose on chart technicals.

BMW rose DM48 to DM2,070 while Volkswagen preference shares led the decliners, falling DM35.50 or 3 per cent to DM1,092.50. VW said it would continue to bid *for Rolls-Royce Motor Cars.*

ZURICH was sharply higher, in line with its neighbours, as the strength of the US market and receding fears of interest rate rises boosted prices.

A strong rise in heavyweights such as Roche and Nestlé also supported the market, as did a steady currency and strong bonds. The SMI index closed 239.1 or 3.2 *per cent higher at 7,640.5.*

Roche certificates gained SFr595 to SFr15,800 and Nestlé SFr136 to SFr3,046. Novartis was an underperformer, but still gained SFr46 to SFr2,534.

The financial sector was stronger in response to the *interest rate outlook, with* merger partners *UBS and* SBC leading. UBS gained SFr131 to SFr2,547 and SBC SFr28 to SFr549.

CS Group advanced SFr4.50 to SFr334.50 as it declined to comment on a press report it had turned down a merger proposal from Dutch financial group ING. Instead the Swiss group was said to be considering a takeover of Brazil's Banco Garantia.

MILAN shot 4.4 per cent higher with the Mibtel index closing 1,009 ahead at 24,062.

Shares in Alitalia, the Italian flag carrier, were suspended when they hit a 10 per cent limit for upward movement. The shares had *risen L3,311 at L36,252 as the* managing director told shareholders that the airline made an operating profit for the first four months of 1998.

Retailer Rinascente climbed L1,053 to L18,500, underpinned by data showing that retail sales rose 2.2 *per cent year on year in February.* Rinascente said last month that first-quarter sales were up 14.4 per cent over the first quarter of 1997.

Olivetti, which on Thursday announced it returned to profit in 1997 after six years of losses, picked up *another L109 to L2,400. The* *shares rose 14 per cent in the* final three trading sessions of last week.

Alleanza, the insurer, posted a gain of L1,805 to L34,150. Traders said the stock had fared worse than other insurances in sell-offs, but was boosted yesterday *by buying from investors* who left the market when it fell last week.

AMSTERDAM ended 9.41 higher at 1,197.23 on the AEX index in spite of a nervous money market and slight softness for bonds.

Royal Dutch climbed Fl 3 to Fl 118.90 on oil price strength and optimism ahead of Thursday's first-quarter results. Talk that news of a link with Belgian's Generale Bank was imminent continued to lift Fortis Amev, pushing the shares up Fl 4.10 to Fl 282.60.

Akzo Nobel rose Fl 4.80 to Fl 429 following another paints takeover. Last month it announced a $3.1bn UK deal. Yesterday it agreed to buy paint businesses from BASF of Germany.

Publisher Elsevier was the best performer, gaining Fl 1.50 or 5 per cent to FL 31.60. Software leader Baan was also firm, adding Fl 3.30 to Fl 94.90 on news of talks with data supply systems group Hiscom. Heineken, which plans a share split, jumped Fl 16.20 to Fl 514.70.

MADRID rose on talk of another quarter-point cut for Bank of Spain lending rates which sent the general index up 21.20 at 892.28. Market heavyweight Telefónica jumped Pta310 to Pta6,670 as the group's Pta420bn rights issue drew to a close.

Koipe jumped Pta800 or 8.7 per cent to Pta9,930 on the public offer of a 12.7 per cent stake in the olive oil group.

OSLO ended up 24.44 at a record 1,422.60 as financials warmed to the news that insurance leader Storebrand had made merger overtures to Christiania Bank. Storebrand rose NKr4 to NKr70.

CHANGES ON THE DAY

	% Change
Amsterdam	+1.0
Brussels	+1.8
Dublin	-0.1
Frankfurt	+1.8
Helsinki	+2.6
Lisbon	+2.3
Madrid	+2.4
Milan	+4.4
Paris	+2.4
Vienna	+1.0

Written and edited by Michael Morgan, Peter Hall, Jeffrey Brown, Paul Gregan

Seoul falls sharply after civil unrest

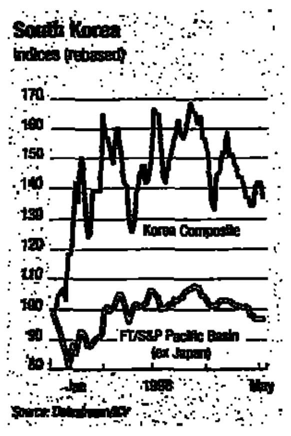
ASIA PACIFIC

SEOUL fell 3.6 per cent, hit by civil unrest and worries about the heavy stream of share offerings due over the next few months.

The Kospi index retreated 14.73 to 391.80 after last week's unemployment figures, which hit a 12-year high, sparked weekend rioting. Brokers said investors had also been deflated by the build-up of rights issues.

According to the new issue calendar to the end of June, the market faces a stream of rights issues valued at about Won3,000bn.

BANGKOK was hit by news of impending changes at the Bank of Thailand after Chaiyawat Wibulswasdi



announced his resignation as governor. The SET index ended 11.42 or 2.8 per cent lower at 4,000.71. Bank stocks led the market lower.

Zoo operator Safari World was again actively traded, *adding Bt1.50 at Bt27.50.*

MANILA rose for the fourth session in a row, adding 26.80 or 1.2 per cent to 2,208.12 on the composite index in modest volumes. Brokers said there was limited buying ahead of today's inflation data and against a background of increasing hopes for a peaceful general election on May 11.

SYDNEY made modest *progress, overcoming negative* trade data and another weak session for resource stocks, thanks largely to a move towards settlement in the docks dispute. The All Ordinaries index ended 8.1 better at 2,812.3. Industrials and financials led the upturn. ANZ Bank gained 7 cents to A$10.92 and Westpac *11 cents to A$10.50.*

HONG KONG drifted to a lower close with liquidity drying up as cautious investors remained on the sidelines. The Hang Seng index lost 124.26 or 1.2 per cent to 10,439.42 after a low of 10,401.82. Turnover shrank to HK$3.6bn against Friday's already low HK$4bn.

Concerns about the local economy only added to the *gloom. Wing On Co International,* the department store chain, lost 40 cents to HK$4 as it said it was to lay off more than 200 staff.

Hongkong Telecom fell 15 cents to HK$14.50 after reporting earnings largely in line with expectations. Index heavyweight HSBC Holdings lost HK$2 to HK$225 while *Hutchison was flat at* HK$48.80. Chinese Estates fell 17.5 cents to HK$2.10 as Standard & Poor's gave it a triple B minus credit rating.

JAKARTA was hit by a hefty rise in domestic fuel prices and the composite index lost 2.53 to 445.99. This opened the way, analysts said, to further declines this week that could leave the index at about 400 points.

The rise in fuel prices, of up to 71 per cent, was expected to increase the tempo of a students' movement against President Suharto and lead to further unrest.

Tokyo was closed for a public holiday.

Governor denies resignation

SOUTH AFRICA

Johannesburg was mixed in quiet trade, with the rand under pressure in spite of a denial from Chris Stals, the governor of the Reserve Bank, that he was planning to resign.

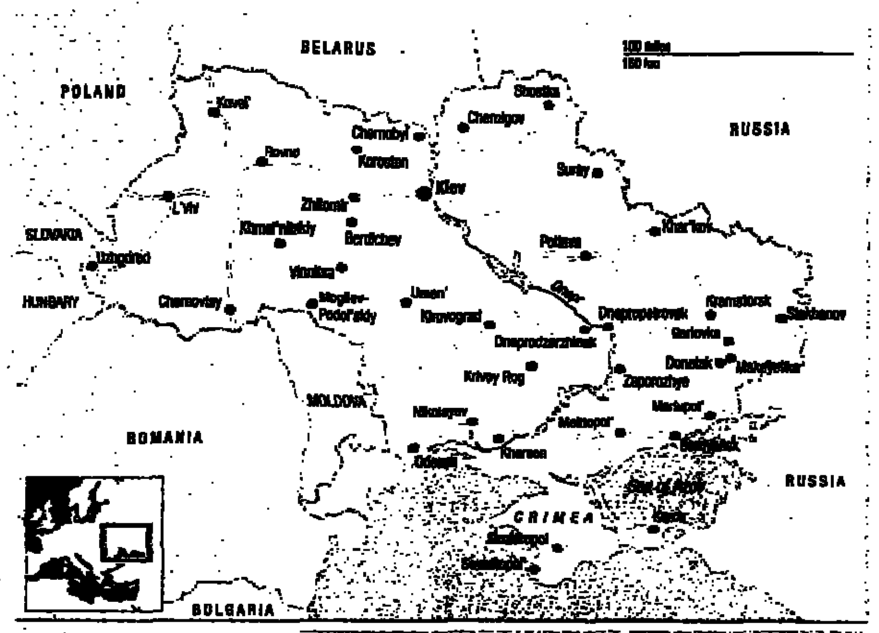
The overall index closed 28.7 higher at 8,264.2 as *industrials rose 133.2 to* 9,940.2 and golds gave up 47.7 or 4.4 per cent to 1,032.1.

Liberty Life lost R6 to R165 and Standard Bank picked up R1 to R30.90 as markets shrugged off news that their alliance plan was being put on hold.

Ukraine

The near miracle of sustained independence and democracy is threatened by economic failure, warn **Chrystia Freeland** and **Charles Clover**

Captive economy threatens freedom



•Area: 603,700 sq km
•Population: 50.45 million (Jan 1 1998)
•Languages: Ukrainian (official), Russian widely spoken
•Currency: hryvna (Hrn)
•Exchange rates 1997 av $1 = Hrn1.8119
April 29 1998 $1 = Hrn2.0464
•Main towns and population (1996)

Kiev (capital)	2,638,000
Khar'kov	1,576,000
Dnepropetrovsk	1,162,000
Odessa	1,160,000
Donetsk	1,102,000
L'viv	808,000

Constitution

•Official name
Ukraine
•Legal system
A new constitution was approved by parliament on June 28 1996
•National legislature
Supreme Council, a unicameral assembly of 450 deputies
•National elections
June 26 and July 10 1994 (presidential); March 29 1998 (parliamentary); next elections due October 1999 (presidential)
•Head of state
President Leonid Danilovich Kuchma
•Cabinet of Ministers
Prime minister:
Valery Pustovoitenko
First deputy prime minister:
Anatoly Holubchenko
Deputy prime minister for economic reforms:
Serhiy Tyhypko
Deputy prime minister for social policy:
Mykola Biloblotsky
Deputy prime minister for humanitarian policy:
Valery Smoliy

Economic summary

	1996	1997 (estimate)
Real GDP growth (annual percentage change)	-10.0	-3.2
Industrial output (annual percentage change)	-5.1	-1.8
Agricultural output (annual percentage change)	-9.5	-1.9
Inflation (average annual percentage change in CPI)	80.0	16.0
Gross average monthly wage in industry (annual % change)	93.0	20.0
Broad money (end-year, annual % change)	35.0	28.8
Treasury bill rate (three-month maturity, end-year, %)	82.0	41.0
General government balance (percentage of GDP)[1]	-3.2	-6.6
Current account balance ($billion)	-1.1	-1.5
Exports ($billion)	15.6	16.3
Imports ($billion)	-19.8	-20.1
Trade balance ($billion)	-4.3	-4.8
Foreign direct investment, net ($billion)	0.5	0.7
Gross reserves excluding gold ($billion)[2]	2.0	2.2
External debt (percentage of GDP)	20.8	20.5

[1] Includes municipalities and extra budgetary funds [2] Foreign exchange reserves of monetary authorities

Main trading partners (share of total trade in world 1996)

EXPORTS		IMPORTS	
CIS	54.1%	CIS	67.8%
Russia	38.7%	Russia	48.0%
EU15	10.9%	EU15	14.1%
China	5.4%	Turkmenistan	8.8%
Belarus	5.1%	Germany	5.5%
Germany	2.9%	US	3.0%
US	2.9%	Poland	2.7%

Sources: EBRD; EIU

"Ukraine has not yet died," is the doleful first line of the Ukrainian national anthem. It is a sadly appropriate lyric for a nation for which survival has always been the greatest of challenges.

Today, Ukraine has a rare chance to reverse the tide of its history. It has been independent for nearly seven years, its longest stretch of absolute sovereignty in a millennium, confounding the sceptics who predicted autonomy would be short-lived.

Politically, Ukraine has been a fairly successful debutant – she has steered clear of an oft-predicted war with Moscow and, in contrast with most of the former Soviet republics, including Russia, has avoided a separatist civil war among her new citizens.

But these fragile political accomplishments are threatened by the country's dismal economic performance. Privatisation is stalled and the economy is strangled by a corrupt and meddling bureaucracy. The rot threatens to undermine Ukraine's most significant economic acheivement – financial stabilisation.

Beyond that, economic weakness could sabotage Ukraine's existence as a state. For the country's anxious neighbours, particularly the uneasy Poles, that would be a disaster, throwing the entire region into instability.

But, for Ukrainians themselves, wasting the current historic opportunity would be even more of a tragedy.

Since the Tatar horsemen first descended on Kiev in 1240 and smashed the Kievan Rus state, the vast steppes of Ukraine have been a convenient battlefield for the clash of civilisations on Europe's eastern fringe. The 20th century has been the bloodiest of all, with the First World War, the Russian Civil War, Stalin's artificial famine and the Second World War taking the lives of more than 10m Ukrainians in just more than 30 years.

Until very recently, this history of defeat and foreign domination made the very idea of a separate Ukraine seem ridiculous to all but a small, much mocked, band of Ukrainian intellectuals. Tsarist Russia insisted that the Ukrainian language did not even exist, calling it nothing more than a bastardised version of greater Russian, deformed by Polish borrowings.

As late as this decade, a more delicate version of this Imperial Russian verdict was the conventional wisdom in the west. Visiting what was still the Ukrainian SSR in August, 1991, then US President George Bush lectured Ukrainian parliamentarians on the virtues of remaining in the USSR and warned them not be tempted by dangerous nationalism into the ridiculous project of trying to form their own state.

Dubbed the "Chicken Kiev" speech by the New York Times, Mr Bush's words shocked a nascent Ukrainian democratic movement which had believed Ronald Reagan's pronouncements about the "evil empire" and had hoped for western support in its effort to crawl out from under the yoke.

But even Mr Bush could not keep the Humpty Dumpty of the Soviet Union from shattering. Less than a month after his speech, hard line Communists mounted a failed coup in Moscow. Their defeat inspired Ukraine, together with the USSR's other constituent republics, to declare independence. A few months later, Ukraine's citizens overwhelming confirmed their parliament's decision in a national referendum and an astounded world had little choice but to recognise Ukraine as a sovereign state.

Russian leaders, who saw Ukrainian independence as an accidental by-product of the Soviet Union's messy collapse, were particularly skeptical. One former western ambassador to Kiev recalls how, in the nicest possible way, Russian colleagues urged his country to avoid wasting its money on building an embassy in Ukraine because, in a few years, it would again be a Russian province.

Given Ukraine's historical track-record, these doubts were understandable. But, seven years on, Kiev has confounded the disbelievers. Ukraine is firmly established as a separate country and has made such a strong argument for the geopolitical virtues of its existence that it has earned the wholehearted patronage of the US, which last year gave Kiev $225m, making it the third-largest recipient of direct US support.

Kiev has attracted this largesse by convincing Washington that a strong, sovereign Ukraine is the key to preventing a resurgence of the Russian imperialist urge which has dominated world politics for much of this century.

As Zbigniew Brzezinksi, the former US National Security adviser, and one of the earliest architects of this approach, argues: "It cannot be stressed strongly enough that without Ukraine, Russia ceases to be an empire but with Ukraine suborned and then subordinated, Russia automatically becomes an empire."

Led by Poland, Ukraine's neighbours are particularly vocal proponents of this view and have established warm relations with Kiev, largely unmarred by the ethnic disputes which once characterised this borderland.

But for Russia, Ukraine's increasing independence and western orientation have been less welcome. Even so, the real surprise in Ukrainian-Russian relations is not their tension but their relative amicability.

Instead of the violent conflict which many predicted when the Soviet Union first collapsed, Ukraine and Russia have settled into an awkward truce, signing a historical political treaty last year in which Moscow acknowledged the borders of a sovereign Ukraine for the first time. That deal, and a 10 year economic pact Russia and Ukraine signed in February, were the first signs that Moscow has begun to feel it must compete with the west for Kiev's allegiance.

Ukrainian leaders – who have been particularly eager to induce Russia to offer cut-rate prices for its gas and oil – acknowledge improved relations with Moscow but say their main orientation is towards the west.

"The Ukraine elite faced the choice of whether to join the natural process of integration into Europe or to join the entities dominated by Russia," says Anton Buteiko, first deputy foreign minister. "Without breaking off our relations with our former partners in the Soviet Union, the main thrust of our policy is towards integration with Europe and the Transatlantic powers."

Just as it has found a tentative balance on the geopolitical tight-rope between east and west, Ukraine has had some success in creating a fledgling democracy.

In contrast with many of the former Soviet republics, the powers of the Ukrainian president are checked by a muscular and vocal parliament. Ukraine has already passed one of the key tests of democratic development, transferring power in 1994 from one elected head of state to another. By the standards of the region, it has established a credible record in protecting the rights of its ethnic minorities.

But Ukraine's political and geopolitical achievements today risk being undermined by its central failing – stalled economic reform.

After contracting by more than a half since 1991, Ukraine's economy may finally be bottoming out. But few observers believe it is on the verge of vigorous growth.

Wage and pension arrears now total roughly 5 per cent of GDP and inter-enterprise arrears, a substitute for the lack of credit in the economy, are now higher than Ukraine's GDP. The country's cash-starved economy is dominated by monopolistic trading companies which import energy, such as gas and oil products, and barter them for finished export goods from farms and factories, often on extortionate terms.

The biggest problem is the country's failure to liberalise. Frustrated businessmen complain of a labyrinth of bureaucratic regulations – often with a corrupt apparatchik at every turn – facing the would-be entrepreneur. Perhaps the best measure of Ukraine's institutional economic inertia is the failure of any international hotel company, despite the energetic efforts of dozens of interested parties, to break through the deadlock and build a western-style hotel in the Ukrainian capital.

Before the economic crisis in Asia, investors seemed inclined to forgive Ukraine many of its economic sins, betting that its undervalued

Continued on Page 2

PROFILE **Victor Yushchenko**

The Governor

Legend has it that, in the early middle ages the Slavic tribes living near Kiev, the city that would become Ukraine's capital, were so disappointed by their lack of native leaders that they appealed to Scandinavian merchant-princes "to come and rule over us".

Disgusted by the venality and ineffectiveness of so many of their current masters, many modern-day Ukrainians are wont to observe that, over the past millennium, not much has changed.

But almost everyone, ranging from western investors to the impoverished Ukrainian pensioners, singles out one bright exception: Victor Yushchenko, the much-admired governor of the National Bank of Ukraine.

"It's really terrible, the leaders have accomplished very little for this country," complains one prominent Ukrainian-Canadian businessman, who has returned to try to make a contribution to the land of his ancestors.

"The one person who's really acheived something is Yushchenko. He's a visionary, he's got charisma, he's got a soul, he's got a feeling for the people in the country."

The ambassador of a G7 country is equally enthusiastic: "Yushchenko is a natural leader, he is handsome and he is decent. He has been one of the first Ukrainian leaders to sit on a charitable board. I think he is a genuinne patriot."

Mr Yushchenko has won these accolades both through what he's done and who he is.

His achievements as the country's national banker have been impressive. While many of Ukraine's economic reforms have been still-born and in the midst of plummetting economic production, Mr Yushchenko has managed to halt hyper-inflation and launch a new, stable currency, the hryvna.

Dream candidate: Mr Yushchenko steadfastly refuses to stand for president Reuters

His personal qualities are equally admired. In a country whose politicians are legendarily corrupt, Mr Yushchenko has won a reputation as a leader who is working for the common good, not for personal enrichment.

With little fanfare, he has emerged as one of the few senior Ukrainian officials to actively support charitable causes and he is one of the government's most articulate members, concerned with, and careful to build, a popular constituency for his tight monetary policies.

All of this has made Mr Yushchenko the dream candidate in the 1999 presidential elections for beleaguered and depressed liberals.

"After hours, instead of using his government chauffeur, he drives his own car. He is honest and committed," says Oleksandr Tkachenko, a Ukrainian television reporter whose news programme was pulled off the air for its frank criticism of the authorities. "He would be a great president and he may be drafted into running."

Tall and broad-shouldered, fans think Mr Yushchenko would make a naturally photogenic flesh-pressing politician.

In a country divided between east and west, and still uncertain about its national identity, his personal background would also be a political advantage. Mr Yushchenko is an ardent Ukrainian patriot, displaying portraits of Ukrainian poets on his office walls and only reluctantly speaking Russian. Yet he is a son of the Russified, eastern provinces of the country, a peasant boy who still likes to keep bees.

But, despite the barrage of public calls for him to join the presidential race slated for next year, Mr Yushchenko is adamant that he will stay at the National Bank.

"I view the idea that I should run for the presidency very negatively and I have always rejected it," Mr Yushchenko says. "This is a position which I have repeated very often, so I hope people believe me."

Friends say that Mr Yushchenko's reluctance is genuine. He is already popular enough to satisfy any craving for public renown. And, in the light of the recent murder of Vadim Hetman, former president of the National Bank, his reluctance to impose the additional dangers and discomforts of a presidential campaign on his family is understandable.

That is a disappointment for Ukrainians and western diplomats alike. But Mr Yushchenko will have his hands full if he stays at the central bank. The country's failure to bring its budget under control and the growing reluctance of western investors to commit to Ukraine are putting extreme pressure on Mr Yushchenko's proudest acheivement – the hryvna.

Unless Ukraine's president and parliament experience a radical change of heart soon, many analysts fear that even Mr Yushchenko may be unable to keep the currency afloat.

Chrystia Freeland

ECONOMY • by Charles Clover

Dissent means descent

Without consensus on the detail of reform, Ukraine faces a bleak future

Opposing views: President Leonid Kuchma and Communist Party leader Petro Symonenko AP

Half of Ukraine's economy is in the 21st century, half remains in the middle ages. Kiev brokers sell Ukrainian stocks on one of the most sophisticated screen-based trading systems in eastern Europe but Ukraine's workers are paid in vegetable oil or ball bearings.

And, while the country remains capable of building some of the most advanced technology in the world, from lasers to nuclear turbines to rocket boosters, its GDP has fallen by one half since 1991 and farmers have gone back to using horses because they cannot afford gasoline for their tractors.

Though inflation has been tamed and the currency stabilised, these achievements have come at the cost of increasing wage and pension arrears, which now total roughly 5 per cent of GDP.

Inter-enterprise arrears, a substitute for the lack of credit in the economy, are now higher than Ukraine's GDP, while barter transactions last year totaled 66bn hryvna, two-thirds of the country's GDP.

It is no surprise, then, that in Ukraine no word is used more often than reform.

But while reform is something that everyone agrees must happen, and soon, just what these reforms should be is the subject of considerable disagreement among the country's policy-makers.

Some Ukrainian officials insist that Ukraine must privatise its heavy industry, deregulate its economy and cut its budget. Serhiy Tyhypko, vice prime minister for economic reform argues: "The best course to reform is through creating conditions for private investors by stabilising the economy, by lowering taxes for producers and privatisation."

But other officials are still of the opinion that the only thing that can save the Ukrainian economy is the state.

Yehven Kushnarev, chief of staff for president Leonid Kuchma, says: "I want to emphasise that we are talking about strengthening the management role of the state, about strengthening the state's regulatory role and about state support for priority areas of the economy, such as aerospace and high technology."

Jeff Sachs, economist at Harvard University, expressed his exasperation with these different points of view after meeting with Ukrainian cabinet officials during a visit to Kiev in January. "Everyone agrees that something must be done but no one agrees on exactly what that is," he said.

In 1995-96, the government began a programme to stabilise its economy by first stabilising its currency, the hryvna. This was accomplished with the help of \$2.2bn in credits from the International Monetary Fund which funded roughly two-thirds of Ukraine's current account deficit over the two years.

But, last year, these funds virtually stopped after the IMF tried unsuccessfully to negotiate tough economic reforms in exchange for the credits. As a result, the government began to experiment with new sources of finance.

Fortunately, or unfortunately, 1997 brought with it a global fad for lending to emerging markets in local currency, driven by low interest rates and overvalued stock markets worldwide. Ukraine's government jumped on the bandwagon, issuing more than \$1bn of T-Bills to foreigners to make up for the drop off in IMF credits.

But following the Asian financial crisis in the autumn of last year, foreigners have pulled out of the T-Bill market. Ukraine was stuck with 6bn hryvna (\$3bn) in internal debt service at the beginning of the year, an amount equivalent to 20 per cent of the country's budget revenues and two thirds of the total assets of its domestic banks.

In January and February, such was the lack of interest in the bond market, the government could not find buyers for some 800m (400m) hryvna of T-Bills and was forced to sell them to the central bank, essentially printing money.

Over this period, the value of the hryvna dropped by 6 per cent, though it stabilised after the central bank sold some \$450m of reserves to defend it.

In March, foreigners started to come back into the country's T-Bill market but, in the meantime, the IMF suspended a \$585m, 12-month stand-by loan as a result of Ukraine's failure to meet macro-economic targets.

The country's economic future hangs in the balance, according to most experts. "Ukraine is not going to make it in the long run if it doesn't cut its budget and privatise heavy industry," says a western economist in Kiev.

But some of Ukraine's policy makers are drawing very different lessons from the country's rough ride on the global economic roller coaster of the last few months.

"The IMF policies are designed to make Ukraine into an exporter of raw materials for the rich western countries," charges Oleksandr Moroz, the left-wing speaker of Ukraine's parliament.

Experts say that the lack of consensus on market reforms is a critical hurdle for Ukraine, which is applying for a new IMF programme, a \$2.5bn three-year Extended Fund Facility, for which it must meet 92 conditions.

"I understand what the IMF wants and I absolutely support it. But we do have different opinions on the issue," says Mr Tyhypko.

Market stalled: without reform the economy could collapse, possibly taking the state with it Gareth Wyn

Captive economy threatens freedom

Continued from Page 1

assets and the entrepreneurial energy of its gradually liberated people would make up for the government's malign interference.

But the melt-down in Asian markets last autumn has made investors far more sceptical. Many foreigners have pulled out of Ukraine's government bond market, forcing the interest rate to nearly 50 per cent. So shaky is Ukraine's financial reputation that earlier this year the government was forced to offer an almost unprecedented 16 per cent yield on the eurobond market.

"If they don't cut expenditure, reform tax structures and privatise, they remain subject to the whims of the international market for high risk, high yield debt," says Patricia Bartholomew, an economist at the Kiev office of the brokerage Wood and Co.

The high price of borrowing is a worrying signal that Ukraine's economic failures may be jeopardising its main economic success – financial stabilisation. After a painful bout of hyper-inflation, Kiev has brought inflation down to an annual 10 per cent and launched a relatively stable national currency, the hryvna.

But today the hryvna, and the fragile political achievements it underpins, could be in danger.

Impoverished and increasingly desperate, the government has already begun to chip away at Ukraine's nascent democracy. In contrast with past ballots, during recent parliamentary elections critical newspapers and television programmes were silenced and at least one popular opposition member of parliament now risks being stripped of his seat on a legal technicality.

Worse still, without economic reform, the state itself may not be able to endure.

"I view the economy as the most important threat to national security," says Volodymyr Horbulin, Ukraine's national security chief.

Like many of the bruised nations of eastern Europe, Ukrainians are fond of complaining about the poor hand history has dealt them. At the end of a century including the artificial Stalinist famine, in which more than 6m Ukrainians died, and the Chernobyl nuclear disaster, it is hard to blame them.

But, today, historical excuses are not enough. For the first time in a long time, Ukraine is independent and with that independence has come responsibility for its own fate. If Ukraine's leaders fail to take advantage of this opportunity, the entire region risks being destabilised. It may be another thousand years before Ukraine gets a second chance.

Fleet news: agreement with Russia over the Black Sea fleet was a huge step AP

FOREIGN POLICY • by Anthony Robinson

A novice fluffing its lines

Ukraine has failed to make progress since being welcomed on to the world stage

Ukraine has never before been a presence in international politics, even though it held a seat at the United Nations, along with Soviet Belorussia, throughout the post-war period.

That was, essentially, one of Stalin's little jokes at the expense of the international community. While Moscow ruled its Ukrainian province with a rod of iron the votes of Ukraine and Belorussia helped to boost the Soviet presence in New York. Separate UN membership also provided handy extra channels for infiltrating Soviet agents into UN institutions around the world.

The hugely pompous, Stalinist neo-classic foreign ministry building in Kiev, with its hammer and sickle emblem still adorning the stone flags draped across the top of the heavy columns, stands as a reminder of those days.

For the last seven years, however, Ukraine, whose well-trained diplomats staff one of the most progressive government departments, has worked hard to establish its presence internationally. Kiev now hosts a plethora of foreign embassies and international financial institutions, including the IMF, World Bank and the EBRD.

Last month, Boris Tarasyuk, Kiev's former chief of the Ukrainian mission to Nato, replaced Hennady Udovenko, veteran Soviet-era professional as foreign minister. Mr Udovenko gave up the top diplomatic job after being elected to parliament on the Rukh party ticket at the recent parliamentary elections.

Vyasheslav Pikhoveshek, head of the Ukrainian Centre for Independent Political Research argues that Ukraine's foreign policy aims and achievements should be judged in the light of the way in which Ukraine gained its formal sovereign independence in 1991.

By his analysis Ukraine became independent not as a result of agitation by the noisy Rukh nationalists concentrated in the western Ukraine but, primarily, due to the growing conviction of a powerful group of communist party insiders that the best way to preserve their grip on power was to break with Moscow.

The failure of the August 1991 Moscow coup attempt confirmed that power had slipped from the hands of the Ukrainian factions within the Soviet communist party, concentrated in the military-industrial cities of eastern Ukraine. This so-called "Dniperpetrovska mafia" personified by Leonid Brezhnev, played a key role in Soviet Union-wide party, KGB and military affairs after the death of Stalin but was undermined by Mikhail Gorbachev's subversive policies of glasnost and perestroika.

The retention of real power by senior Ukrainian communists deeply intertwined with the military industrial complex, KGB and military networks made it possible to assert Ukrainian sovereignty, Mr Pikhovsek argues, without provoking civil war or military confrontation with similar structures remaining in Russia.

Piping hot: strategic interests include oil and gas supplies Gareth Wyn

The key decision to give up nuclear weapons, for example, reflected the fact that although the Yuzhmash complex in eastern Ukraine was one of the main producers of Soviet ICBM missiles and Ukraine was also pockmarked by missile launch sites and nuclear bomber airfields, all command and control functions were concentrated in Moscow.

The only alternative to the virtually impossible task of building up Ukraine's own command and control structures was to relinquish nuclear weapons and cut bloated military forces.

Other foreign policy priorities included the need to reach a compromise with Moscow over ownership of the Soviet Black Sea fleet and the status of the Sevastopol naval base as well as the need for western financial and technical assistance for military re-structuring and the conversion of military factories to civilian use.

Such a strategy required a non-provocative, constructive policy towards Moscow aimed at building a new relationship on the basis of mutual respect. It also required a new openness towards the US, Nato and the European Union and closer economic and political ties with Ukraine's western neighbours, Poland, Hungary and Slovakia and with its Black Sea regional neighbours – including Turkey.

Ukraine's success in establishing its international presence is also largely due to the fact that it has been pushing on an open door.

Kiev benefited from the geo-strategic fact that it would be impossible to reconstruct a new Soviet Union without the resources, population and location of a country bigger than France with more than 50m inhabitants. Without Ukraine and Belarus, furthermore, European Russia is a far less elephantine and more tractable presence in the continent than the former Soviet or Czarist empire both of which stretched from the Baltic to the Pacific.

Over the last few years, recognition of Ukraine's strategic importance has given Kiev many advantages and enabled it to attract sizeable assistance from the US, the EU and international financial institutions.

Until now foreign aid has been forthcoming despite the fact that progress in structural economic reforms by the still largely Soviet-era political structure has been slow, especially with regard to privatisation.

Those easy days, however, are coming to an end. The old bug-bear, Russia, is far ahead in economic restructuring and attractiveness to foreign investors, particularly as it is perceived as no longer interested in dreams of imperial reconquest. This means that foreign governments and potential investors are less and less willing to bankroll the still opaque and bureaucratic system in Ukraine.

Increasingly, governments are demanding a level playing ground and clearer rules for investments and projects. Meanwhile, international capital markets have given an unmistakeable warning signal by demanding embarrassingly high returns on recent Ukrainian bond issues.

Ukraine's international status is assured. The question now is whether it can give substance to independence by creating the conditions for attracting the domestic and foreign investment needed to repair the damage of the last 80 years and make Ukraine a prosperous as well as welcome member of the international community.

CRIMEA • by Charles Clover

A turbulent past, present and future

Ethnic and political claims leave the region a powder-keg once more

Throughout the centuries, the Crimean peninsula has been the gateway to maritime civilisation for horsemen from the steppes of central Eurasia. For the Mongol ancestors of the Tatars who took Crimea in the 13th century, as well as for the Russian cossacks under Catherine the Great, who in turn conquered it in 1783, control of Crimea meant naval domination of the Black Sea and the potential to control the Bosphorus.

But when Russia gave the territory to its neighbour Ukraine in 1954 while both were still part of the Soviet Union, it did not anticipate that the Union would ever collapse. And when that happened in 1991, Crimea became one of the most strategic pieces of territory that the latter day Russian empire would lose.

While the peninsula belongs to Ukraine, two thirds of the population are ethnic Russian, many of whom yearn for re-unification with their motherland.

And the ethnic cauldron is further heated by the presence of the native Tatars, who were deported to central Asia in 1944 under the reign of Joseph Stalin, and have only started to drift back. By now, they make up 12 per cent of the peninsula's population.

The combination of ethnic nationalism with geo-political importance has been a volatile one throughout the 1990s and many experts have taken note.

Volodymyr Horbulin, Ukraine's director of national security, explains: "We cannot allow any sort of conflict to happen in Crimea. Crimea is our Balkans, only in much more concentrated form."

It was only steady nerves, in both Kiev and Moscow, that prevented one crisis in 1994 from becoming another Abkhasia or Nargorno-Karabakh.

In that year, the peninsula's population elected a Russian nationalist, Yuri Meshkov, as its president and he promptly declared that Crimea would hold a referendum on whether it would join Russia. Had it taken place, the referendum would almost surely have passed, but Mr Meshkov's lack of international support, notably from Russia, combined with pressure from Kiev to ensure his ousting later that year.

Most observers attribute Russia's comparatively passive stance on Crimea to the moderating influence of Boris Yeltsin, Russia's president. But the threat looms that, once Mr Yeltsin is no longer in power, anything could happen.

"Most of these territorial questions, like Crimea, will remain solved as long as Boris Yeltsin remains president," says Andrei Federov, the former deputy foreign minister of Russia who now heads a Moscow think tank, the Council on Foreign and Defense Policy. "Once he is gone, Russia's position on these issues will depend on who replaces him."

Earlier this year, for example, Moscow mayor Yuri Luzhkov, a contender in Russian presidential elections in the year 2000, stated that the Crimean port city of Sevastopol, home of Russia's Black Sea fleet, should belong to Russia, not Ukraine.

The threat of a hard-core nationalist at the helm of Russia has many in the newly independent states worried. And since the mid-1990s, Western powers, led by the US, have quietly backed away from their "Russia-first" diplomacy in the former Soviet Union to a position that emphasises keeping the union broken up.

This unofficial doctrine was on display last autumn during joint naval manoeuvres between Ukrainian and western fleets, code-named "Sea-Breeze," which took place off the coast of Crimea. The amphibious component of the exercise, which was changed at the last minute under Russian protests, was based on the scenario of a foreign power provoking ethnic unrest among the population as an excuse to intervene.

Such a scenario is already very familiar to countries in the Caucasus, where many have accused Russia of using such covert intervention to secure the memberships of Georgia and Azerbaijan in the Commonwealth of Independent States.

And if Russia were able to take back Crimea, it may very well have catalytic effects on other territories in Ukraine, the Baltics and central Asia that have Russian majorities.

"The future of Ukraine hangs on Crimea," says Alexander Formanchuk, a political scientist in Simferopol, the Crimean capital.

But earlier this year, Kiev blundered badly in its relations with Crimea, which has once again unleashed the threat of the nationalist question.

Crimea has been an autonomous region of Ukraine since 1992 but, in January, the Ukrainian central government illegally replaced the mayor and city council of the Crimean city of Yalta with cronies of the Crimean prime minister, Anatoly Franchuk, whose son is married to the daughter of Ukraine's president Leonid Kuchma.

The uproar over the move sharply radicalised the Crimean population and, in local parliamentary elections last month, they voted overwhelmingly for the Communist Party. In the past, the Crimean Communists have spoken out in favour of reunification with Russia.

Though Communist boss Leonid Grach stated last month that they will leave aside questions of nationality in favour of concentrating on the economic situation, others are not so sure.

"This is a very dangerous situation. I give them at maximum one year before they try to hold another referendum to join Russia," says Serhiy Terlokhin, a member of Ukraine's parliament who is known for his pro-western views.

But, despite the headlines, the main struggle for Crimea may be taking place through the slow forces of demographic change. The Russian population is, by and large, elderly and some 500,000-700,000 of the peninsula's 2.3m population are pensioners.

Meanwhile, the Tatars, which now make up 12 per cent of the population, are younger on average and have higher birth rates. Some analysts say that in 10 years, if most of the remaining Crimean Tatar population immigrates, the Tatars could account for 30 per cent of the peninsula's population.

Russian officials privately theorise that the Tatars are supported by western powers, via Turkey, in an attempt to ensure that Russia cannot once again gain control of the strategic peninsula.

"The Tatars are the decisive force balancing the pro-Russian nationalists," says Mr Formanchuk.

But while the Tatars are the main bulwark against Russian nationalism, their relations with Ukraine are also tense. Last month, the Ukrainian government failed to renew a temporary law reserving 14 of the Crimean parliament's 96 seats for the Tatars. The basis for this law was that many of the Tatars were not yet citizens and could not vote.

"It is absurd," says Mustafa Djemilev, head of the Crimean Tatars. "We are the native people of Crimea, with 12 per cent of the population, and we have no political representation," he says.

"If the government doesn't leave us any choice, we will have to settle our grievances on the public squares."

FINANCIAL SECTOR • by Anthony Robinson

In need of intensive care

Ukraine's banks and stock market badly need help if they are to lift the economy

The murder last month of Vadim Hetman, the former *first president of the* National Bank of newly independent Ukraine in 1991, sent shockwaves throughout the political and financial world.

Shot several times by a professional killer in the lift of his Kiev apartment, the violent death of the man who acted as mentor to the younger generation of Ukraine's central and commercial bankers is seen as a political killing.

"Many of us see this as a deadly warning shot to ensure that Victor Yushchenko (the current, and highly respected, president of the Ukrainian National Bank) does not decide to become a candidate in next year's presidential elections as many bankers and private businessmen would like," says a senior commercial banker.

The killing is the first to strike the fledgling banking *sector which has been struggling* to grow in a still largely unprivatised economy where most private business *is small scale* and outside the formal sector.

The weakness of the sector is one of the fundamental obstacles to the development of an entrepreneurial class capable of rebuilding the deformed economy inherited from decades of communism.

The sector was the prime victim of hyper-inflation in 1992 and 1993 and the then government's decision to freeze deposits in savings and other accounts. The savings of millions of Ukrainians were practically wiped out, destroying, in the process, whatever faith they had in the banking system. They have been only par*tially compensated by certifi*cates giving them preferential treatment in the privatisation process.

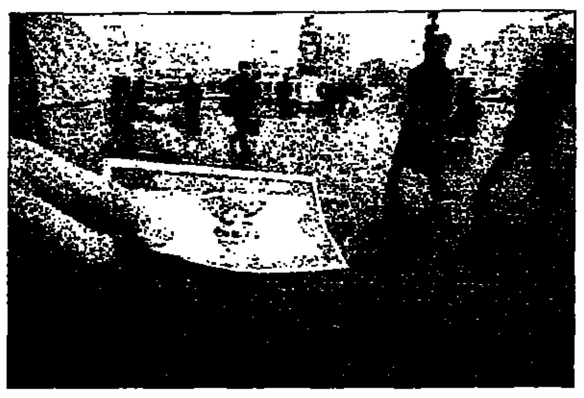
Re-building trust in the banks and creating a modern banking culture is a primary objective of IMF, World Bank and EBRD assistance and financial sector technical programmes.

But it will be a long haul. Assets of the banking system as a whole amount to little more than 5.5 per cent of GDP, calculates Patricia Bartholomew, senior economist at Wood and Co, a leading brokerage house.

With nominal interest rates on risk-free government T-bills again approaching 50 per cent the average bank has little interest in commercial lending. Most would-be private sector borrowers are also squeezed out by the overwhelming hunger of the state sector for funds or seek ways of tapping the *estimated $7-9bn kept* under mattresses or in jam jars.

The composition and reforming zeal of the post-*election Ukrainian govern*ment and parliament remains to be seen after the April parliamentary elections brought 114 independents and other generically pro-business MPs into the new parliament.

Somewhat ironically, analysts believe that the smallness of the Ukrainian banking system, coupled with the macro-economic stabilisation policies pursued by Viktor Yushchenko and his team at the National Bank of Ukraine, has protected the Ukrainian economy from the sort of financial sector shocks which, for example, afflicted Bulgaria two years ago.



Hard currency: the hryvna is stable, the banking system less so AP

But, without an efficient banking system to channel savings to investors' enterprises, the growth of Ukraine's private sector is likely to remain stunted and heavily concentrated in the "parallel economy", foreign bankers believe.

At present, most of the 217 licensed Ukrainian commercial banks are small, undercapitalised and ill-equipped for risk assessment and *normal lending procedures.* Seven foreign banks also operate in the country with a full banking licence and several more, including Citibank, are expected shortly.

But business will remain limited until incomes rise and privatisation finally takes off. Analysts believe that probably a dozen banks have a long-term future. These are principally those included in the business development programmes of the international financial institutions.

Inclusion in such programmes, with its access to cash and know-how, is seen as a seal of approval or qual*ity stamp. Seven Ukrainian* banks currently benefit from a $121m small business development credit line from the EBRD to the National Bank of Ukraine. The central bank on-lends the funds to the selected banks which, in turn, lend to small and medium enterprises, usually to provide hard currency funding for investment, trade or leasing activities.

The EBRD also runs a *multi-bank equity financing facility* which provides equity capital and technical assistance and facilitates longer-term financing. The Kiev-based All-Ukrainian Joint Stock bank (VA Bank) is the first to take part in the *new scheme with the EBRD* paying $10m for an equity stake and seat on the bank's supervisory council.

Three years ago the EBRD also lent $13m to the Donetsk-based First Ukrainian International Bank. This is a Dutch-Ukrainian joint venture in which Mees Pierson is a major shareholder. This was the first EBRD bank-to-bank credit line, with the proceeds going to finance both private companies and companies being privatised.

The under-developed state of the banking system *is* mirrored in other capital markets. After explosive growth in share prices in the first part of 1997 the stock market dropped like a stone as the reverberations of the Asian crisis washed through Ukraine and other highly leveraged marginal markets. The Wood 15 index of leading stocks, for example, was launched on June 13 with a base of 1,000 and leapt to a high of 2590 in early October *before plummetting.*

Even at its peak, however, total equity market capitalisation was less than $4.5bn with 85 per cent of peak weekly turnover of $25-30m taking place in trading between non-residents, mainly in telephone and screen-based trading. Current weekly turnover is usually less than $5m in this huge country of more than 50m inhabitants.

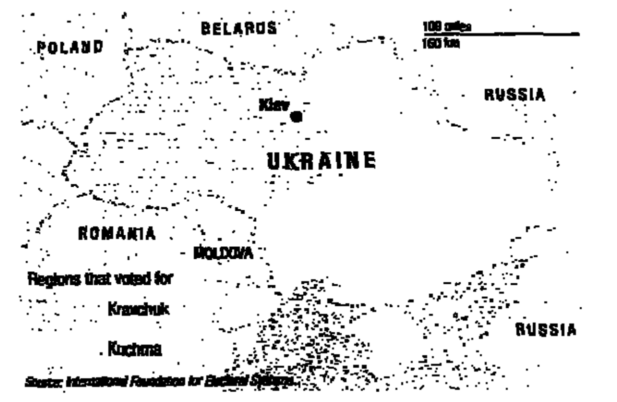
The inability of the banking system and capital markets to satisfy the hunger for capital and know-how of small and recently privatised companies has created a big opportunity for foreign investment funds, especially those willing to take the time to evaluate companies, their owners and their potential market growth.

POLITICS • by Charles Clover

Learning curve: democracy replaced dictatorship but Soviet-style economics is proving hardy

Between a rock and hard place

Gambling on a parliamentary system has maintained unity but stalled reform



The most difficult task for the Ukrainian government since independence in 1991 has been to construct a unified state out of regions that only a few generations ago belonged to different empires.

The country's western regions were part of the Hapsburg empire until the end of the first world war, and the Crimean peninsula was part of Russia until 1954.

Voting in presidential elections of 1994, meanwhile, revealed a clean split down the middle of Ukraine (see map), which *mirrors* a "cultural and confessional split more than a millennium old.

The strong centrifugal tendencies of Ukraine's regions have meant that the government has faced a constant struggle to centralise its authority.

This largely behind-the-scenes conflict burst into open view in 1994 when the Crimean peninsula threatened to hold a referendum to secede from Ukraine and rejoin Russia.

Early on, a strong regionalist movement in parliament *threatened to under*mine the very basis of Ukrainian statehood. The main item on the regionalists' agenda was to change tax collection laws to make them independent of the central authority.

To combat the regionalists' influence, Kiev was forced to make something of a Faustian bargain. Central government, like its counterpart in Russia, decided to promote the development of political parties, which were seen as a valuable counterweight against regional independence *and had a stake in* strengthening the federal centre.

"Parliament could be dominated either by regional bosses or political parties," says Vyacheslav Pikhovshek, of the Ukrainian centre for Independent Political Research in Kiev. "Political parties are the lesser of two evils."

The first, and most visible, manifestation of this unofficial policy was that in 1993, *after being banned for two* years, the Communist Party of Ukraine was allowed to reform and rapidly became the *largest political party* in the country.

Last summer, the passage of a new election law strengthened the political parties considerably by allocating half of the seats in parliament for election by party list rather than in individual districts.

Not surprisingly, political parties *are proving to be* nearly as much of a headache for Kiev as the regional bosses.

Most of the support for political parties is from the left wing and these parties oppose the adoption of the market-oriented reforms that many economists think the country needs in order to recover from the economic collapse it suffered after the break-up of the Soviet Union.

Since independence Ukraine's GDP has fallen one half and many policymakers identify the economy as the single most important threat to the country's security.

While the government has managed to stabilise its currency and lower inflation, the economy is still in chaos and most economists think that it needs urgently to privatise its large-scale industry and cut the government budget.

So far, the left-dominated parliament has stood in the way of these reforms and elections in March increased the left-wing representation in parliament from 30 to 40 per cent.

The government, therefore, faces a dilemma. By weakening the left, and making way for economic reform, it would strengthen regional forces, which could ultimately lead to the disintegration of the state.

But weakening the regional bosses means strengthening the left, which inflicts political paralysis.

Faced with these alternatives, some frustrated Ukrainian officials have gone so far as to suggest that *Ukraine is simply too demo*cratic for its own good.

Yevhen Kushnarev, chief of staff for president Leonid Kuchma, complains: "The president is very interested in speeding up the pace of reforms but our constitution, as distinguished from that of Russia and others, practically doesn't allow him to affect the course of reforms."

Indeed, Ukraine is one of the only countries in the Commonwealth of Independent States where parliament remains a strong force in politics.

In virtually all the rest, including Russia, it has been either abolished or seriously weakened as an institution. In some cases this has opened the door to economic reform.

During the political campaign before the March elections there were ominous signs that Ukraine's short democratic tradition may be in jeopardy. The government closed newspapers and arrested an opposition newspaper *publisher* on *flimsy* grounds.

The Organisation for Security and Co-operation in Europe sharply criticised the government's handling of the elections, saying that these incidents "cast doubt on the neutrality of the state apparatus in the elections".

Some analysts and diplomats who view parliament as a roadblock to reform may be willing to turn a blind eye to the Ukrainian government's attempts to reduce parliamentary authority.

Others point out that Ukraine's main problem is not parliament. The real culprit in Ukraine's political paralysis is the government.

"The government in many cases is the main obstacle to reforms," says Serhiy Tyhypko, vice-prime minister for economic reform.

"One of our most pressing problems is administrative reforms and this is something that we have been unable to correct. This is not parliament's fault."

The Ukrainian government, for example, is pres*ented as a case study in* administrative dysfunction in a 1997 World Bank report, *The State in a Changing World.*

According to the report: "The number of central government bodies remains large (more than 110), their responsibilities often overlap and lines of accountability are unclear. The cumbersome structure makes co-ordination difficult, delays decision making and reduces transparency."

Little by little, however, the government has been *making progress to* trim its bloated ranks and rationalise decision-making.

Analysts point out that the months following the parliamentary elections in March, and before presidential election campaigns begin in 1999, present an opportunity for reforms to be implemented.

"*It is important to use this* period between election campaigns, when reforms will be less politicised," said a senior western diplomat in Kiev.

Others, however, are pessimistic and point out that Ukraine's government has a history of avoiding hard decisions and relying on the goodwill of its international creditors *to see it through* hard times.

AGRICULTURE • by Carlotta Gall

Europe's empty bread basket

Failure to tackle the thorny issue of land ownership is rendering the sector barren

Last straw: many believe the government is actively impeding agricultural development

Bat Batov, the powerfully built director of a large farm 70km west of Kiev, nearly overturns his large desk in exasperation. He owes his workers three months' wages but is saddled with such high taxes he produces meat and milk at a loss.

"The bureaucrats only want to wring money out of the farmers," he says.

Mr Batov, like many working in agriculture in Ukraine, blames the government for actually impeding farms from developing.

Judging by performance, agriculture is last on the government's list for reform. After 70 years of communism land reform has proved the most tricky of political issues and shows no sign of being resolved quickly.

Once the "bread basket" of Europe, Ukraine's fertile black earth should make it an agricultural powerhouse, says Eric Howell, manager of a land privatisation project sponsored by the World Bank's International Finance Corporation. "It is being artificially kept down. It should be a strong element of the economy."

There is no doubt that agriculture is in a chronic state. Production has fallen 80 per cent in the decade. Dairy herds have halved since 1991 and poultry stocks declined by 70 per cent. Up to 80 per cent of farms are lossmaking and wages are the most in arrears of any sector of the economy.

The main stumbling block is land ownership, which is vehemently opposed by communist politicians and some farm bosses.

Parliament has rejected a government proposal on privatising land seven times. As the law stands, state farms can be divided among workers but land cannot be sold until six years after privatisation. It means farmers are unable to raise mortgages and so are denied a vital source of credit.

All that is left to them are short-term loans from commercial banks whose interest rates are extortionate – up to 40 per cent, according to Mr Batov – and barter trade by which they receive seed, fertiliser and fuel from traders in return for part of the harvest six or nine months later.

Neither is in the interests of the farmers, says Bohdan Chomiak of Chemonics, a USAID-funded company providing technical assistance. He points out that margins on barter transactions can be 50 per cent, with the farmer losing out each time.

President Leonid Kuchma has tried to find a way round parliament's objections to land sales by creating 50 year leaseholds that are transferable. But Ukraine remains behind Russia in land reform and is unlikely to pass any law permitting land sales.

The government is slowly tackling privatisation in other areas. Food processing is almost entirely in the private sector now and showed an upturn last year, helped by increased tariffs on imported goods.

This year the government intends to privatise most of the country's grain elevators, which enjoy a monopoly over storage, distribution and supply of seeds.

Mr Kuchma has also passed a decree reducing taxes, although it has yet to be approved by parliament.

Farmers complain bitterly that they have to pay 19 different taxes which gobble up 93 per cent of their income, leaving 7 per cent for wages and energy costs. Penalties for non-payment of taxes are punitive and the farm's bank accounts are frozen, forcing them to deal by barter to continue to farm.

A bankruptcy law is also badly needed, analysts say. Overall production will continue to fall until bankrupt farms are run out of business.

In the meantime a crazy situation has developed in which the nation is literally surviving off its vegetable plots.

Mr Chomiak says 95 per cent of the fruit and vegetables produced in the country are homegrown and 50 per cent of animal protein comes from the private sector, produced on only 12 per cent of Ukraine's arable land.

Villages are reduced to subsistence level, with unpaid workers living purely on their potato patches. One agriculture adviser says he has met farm workers who have never seen a hryvna, although the currency was introduced two years ago.

Although the old state and collective farms have been renamed "collective agricultural enterprises", not much has changed. Workers now own certificates as proof of their share of the enterprise and can split away, receive the title to their share of land and become private farmers.

A tiny number are doing so under a programme run by the IFC but they are isolated examples. Only 4 per cent of land is privately farmed.

"The psychology of people has not changed," says Mr Batov, who has reorganised his farm but found only two private farmers ready to break away and go it on their own.

With investment and tax reforms, Mr Batov is convinced he can turn his farm round. Most analysts think the same about Ukrainian agriculture in general. It is up to the government to deliver.

ENERGY • by Carlotta Gall

Giving it all away

The country's immense resources, and potential, could both go to waste

An evening in a Kiev restaurant will find good food and good service nowadays but the occasionally flickering lights will remind you where you are.

Ukraine does not experience frequent blackouts like its neighbours in the Caucasus across the Black Sea, yet it is heavily dependent on energy imports and is struggling to pay for them.

Ukraine's lack of hydrocarbons is acute for a heavily industrialised country of more than 50m people. Energy imports account for 56 per cent of foreign debt and economic recovery will depend largely on an effective energy policy.

The country imports 90 per cent of its oil needs and 80 per cent of its gas. Natural gas is the main source of energy and Russia is the main supplier. Turkmenistan is another supplier by way of the Russian pipeline system, which only increases Ukraine's dependence on its large neighbour.

Ukraine was once a key exporter of electricity to the former Soviet Union but now, unless it urgently sorts out supply problems and fixes its ageing generation plants and distribution infrastructure, it could turn into an importer within a decade.

The energy sector, despite its crying needs, is attracting interest from traders and investors.

Ukraine has it all – oil and gas, which it is looking to develop, 300 years worth of coal reserves, hydro-electric, nuclear and thermal power and an extensive network of pipelines bearing Russian oil and gas to western Europe.

The government is planning to privatise key electricity companies this year, although the programme has been plagued by delays.

Companies on offer are low priced and the brokers Wood & Co expects them to show growth along with the overall economy.

International tenders should go ahead this year for two of the four big thermal electricity generating companies, Donbasenergo and Centroenergo. The 27 electricity distribution companies are already undergoing privatisation, although only two of nine recent tenders have closed successfully.

There are important issues still to be cleared up, not least the freeing of electricity prices which are heavily subsidised by the government and make electricity distribution unprofitable.

The World Bank suspended a $317m loan last July because it alleged the government failed to keep to an agreement to increase electricity prices and showed a poor record in payment collections.

Not much has changed since then. The sector reflects a startling lack of financial discipline in charging energy consumers and is beset with huge arrears and a high level of barter trade.

Only 18 per cent of electricity bills were collected in cash last year, says Dmytro Moshkalo of Wood & Co.

Although there is not much sign of it, the government has also planned a restructuring and renewal of the coal industry to ensure an internal source of energy.

The industry is in the doldrums after a decade of neglect and falling production, highlighted by the recent explosion that killed 63 miners. It was not an isolated incident. Casualty figures in the mines have risen alarmingly.

Some 100 mines are earmarked for closure and new ones planned but there has been little progress. The World Bank has delayed payment of the second tranche of a $300m loan to close 27 mines since the first tranche was not used to pay debts and miners' salaries as it should have been.

Nuclear power has made a comeback despite the accident at the Chernobyl power station in 1986 and, today, provides Ukraine with almost half of its electricity.

Opposition to nuclear power within the country is no longer a strong political weapon. The issue was barely raised during the recent parliamentary elections. No one seems to care too much that the government will probably not keep to its pledge to close Chernobyl by 2000.

The government insists it needs to bring on line two other reactors at Rovno and Khmelnitsky power stations before it can close Chernobyl. Construction of those reactors is delayed and depends on a funding deal from the EBRD, which is bogged down in negotiations.

Analysts point out that Ukraine's thermal stations are running at a quarter of their capacity and Chernobyl is not needed for the small percentage of electricity it provides in the overall scheme.

"I think [President Leonid] Kuchma seriously believes that you cannot have a nuclear power station and not use it," says Christian von Hirschhausen, who advises the government on economic reform.

Natural gas is by far the hottest topic in Ukraine. Paying its large gas bill is a perennial problem for the government, which has for some time wanted to expand domestic exploration and production for both oil and gas.

Foreign companies are already eyeing the possibilities, drawn not only by Ukraine's heavy consumption, which is going to grow, but its strategic position as the main conduit for oil and gas flowing from Russia to Europe.

Both British Petroleum and Anglo-Dutch Shell have met Mr Kuchma in recent months with big investment plans.

Shell has offered $1.5bn for Ukrgazprom, the second largest oil extraction company, which is 100 per cent state-owned. BP has offered to develop a gas reservoir in central Ukraine that it has been reassessing.

Privatisation and deregulation of the sector has only begun haltingly with several refineries offered for tender unsuccessfully. Everything lies ahead.

METALS • by Carlotta Gall

Core shakes off the rust

The country, and its industry, rests on massive reserves, from titanium to gold

There are two landmark Soviet monuments that dominate Ukraine's graceful capital, Kiev – the Arch of Friendship and the Mother of the Homeland.

Both are made of Ukrainian titanium and, however ugly, are a tribute to the country's wealth of natural resources.

Ukraine possesses an estimated 5 per cent of the planet's mineral reserves. It lies on the world's largest supply of titanium, the third largest deposit of iron ore – more than 200bn tonnes – and 30 per cent of the world's manganese ore.

It has mercury, uranium, nickel and a small amount of gold, among other things.

It was because of the country's enormous mineral riches that Stalin launched his plan in the 1930s for massive industrialisation of Ukraine, until then a predominantly agricultural society.

Hundreds of factories, steel plants and power stations went up every year, turning Ukraine into the core of the Soviet Union's military industrial complex.

Today the metal industry is the largest sector of the economy, accounting for almost 20 per cent of Ukrainian GDP in 1997 and 28 per cent of its exports.

It has been the first sector to reverse the seven-year decline in production and showed average growth of 12 per cent last year when Ukraine produced 25.2m tonnes of steel, making it the eighth largest steel producer in the world.

With domestic demand down, steel manufacturers have sought markets abroad with some success. Exports amounted to $5bn last year, an increase of 30 per cent.

Biggest customer was China, followed by others in south-east Asia, Germany, Turkey and the US.

Russia is a traditional importer of Ukrainian steel and steel pipes but last year it imposed a 20 per cent import tax on Ukrainian goods. Sales shrank drastically as producers sought markets elsewhere.

Even if its mills are energy-guzzling and inefficient, they are managing to turn out steel that is competitive since local energy and transport costs and wages are so low. Ukrainian companies have also won international quality certification allowing them to compete on the international market.

Serhiy Tyhypko, first deputy prime minister for economic reform, is not rejoicing, however. He is unhappy that Ukraine is exporting most of its steel rather than using it in local manufacturing which would be better for the country.

He points to the environmental toll Ukraine pays for so many working steel mills. He explains the increase in steel exports by pointing out that there is a lack of competition. "Not many other countries are prepared to do such filthy work," he says. But he concedes that, for the moment, Ukraine has no choice.

Analysts say the industry, which employs more than 500,000 people, is likely to continue growing, if not at such a pace as in 1997. But the future is not wholly secure.

The Asian crisis is expected to affect Ukraine's steel exports. South-east Asian countries were big importers last year and a new market for Ukraine. But such exports are expected to fall this year.

Mills are already slowing production as tonnes of steel sit in the ports and prices fall. There is hope that Russia may step in and buy Ukraine's steel again, waiving its new import tax.

Ukraine is also facing several large anti-dumping investigations in the US, Mexico and south-east Asia and has specifically been issued with a five-year ban from exporting to the US. The case is now under appeal.

Outdated technology and a lack of energy and time-efficient methods are big long-term problems for the industry, too.

All the main steel producers are to remain majority state-owned since the industry is considered of strategic importance.

According to a government decree issued in 1997, the state will keep 51 per cent of all large companies. Two pipe producers, privatised before the decree, are the only companies to slip through the net.

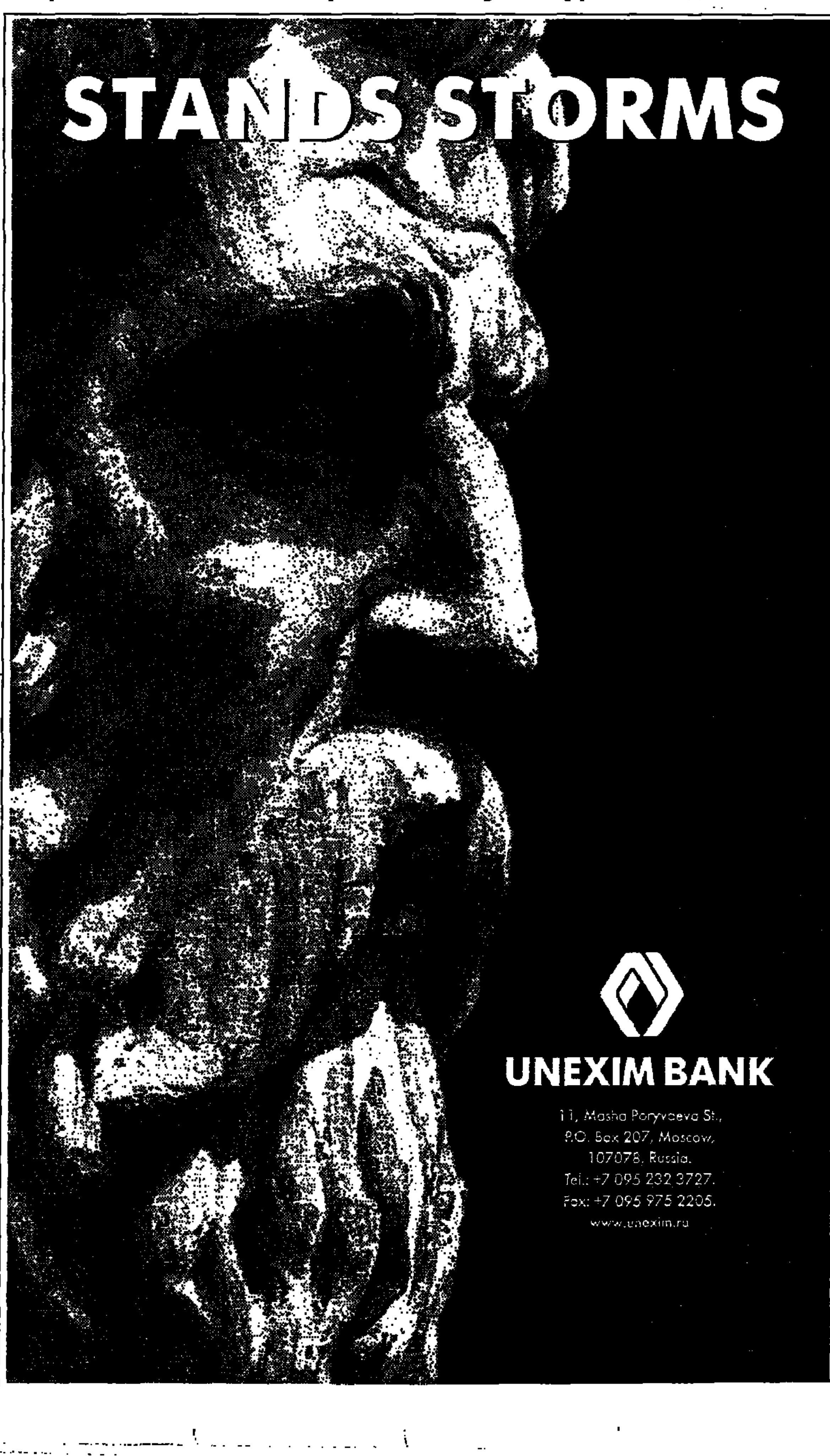
But even privatisation of parts of companies in the metal industry has hit some serious obstacles as the country's "jewels", as one financier called them, came on offer.

Two recent tenders for manganese companies have been called off, officially because they were underpriced but possibly more because of a fierce jostling for a piece of the cake.

There are 20 steel mills, 10 companies extracting iron ore and eight companies producing steel pipes. Some of them are the biggest of their kind in Europe and the pipe producers build the only gas and oil pipelines that Russia can use.

Khartsyzk, the main supplier of pipes to the Russian gas company Gazprom, received big enough orders from that company last year to put it back in business.

Likewise, the four companies that dominate steel production – Krivorizhstal, Mariupol Illicha, Azovstal and Zaporizhstal – will depend on exports for their survival.



WESTERN UKRAINE • by Anthony Robinson

Glimmer of hope for town jewel

L'viv is beginning to emerge from the dark ages of Nazi and Soviet occupation

L'viv, the faded baroque jewel of a city which serves as the capital of western Ukraine, encapsulates in its eclectic architecture, varied languages and multi-ethnic graveyards two of the essential aspects of central Europe.

The first is that history weighs heavily on the present day. The second is that, in this part of the world, boundaries and frontiers are unpredictably moveable feasts.

In the late Soviet period Ukraine was ruled with an iron hand by communist party and KGB bosses from the heavily industrialised region in the Russian-speaking east of the country. But it was here, in the western Ukraine, that the anti-Soviet Ukrainian independence movement gathered steam towards the end of the last decade.

Rukh, the nationalist movement for an independent Ukraine, is still popular and won a third of the votes in the recent parliamentary elections. Its candidate was elected mayor and several prominent reformers come from this region bordering on Hungary, Slovakia and Poland, including Viktor Pynzenek, head of the pro-business Reform and Order party and Grigory Yavlinsky, a leading reformer in the Russian duma.

The city's radical reputation is an echo of its cultured, cosmopolitan past. But L'viv, or Lwow as it used to be called under Polish rule between the wars, or Lemberg as it was known for 150 years before that under Austrian Hapsburg domination, is a classic shuttlecock. Its fate depends on the relative balance of forces in the region and beyond.

Over the last few years the region has struggled to repair the ravages of a tragic recent past – with mixed success.

A thriving cross-border trade with neighbouring Poland is largely one-way. L'viv and other cities have lively street and municipal markets but they are full of cheap, and good quality, Polish processed foods, clothes and consumer goods. Thousands of unemployed Ukrainians, meanwhile, have sought and found jobs in the fast growing Polish economy across the busy, visa-free border.

In L'viv itself the economy is struggling to adapt to market forces. Foreign direct investment is thin on the ground, apart from substantial investment by RJR Reynolds, the US tobacco company and Amatil, the Australian-based Coca-Cola bottling company. And the EBRD has co-financed a $40m investment in Svitoch, the local chocolate company.

But local entrepreneurs find it hard to raise loans and complain of bewildering and ever changing rules and regulations from Soviet-style bureaucrats.

Gennadi Genshaft, one of the most successful home-grown entrepreneurs, is a somewhat controversial exception.

He has helped develop the local tourist infrastructure by renovating the Grand Hotel on the city's main Prospekt Svobody (Freedom Square). He also leases from the state railways a luxury pullman sleeping car which is attached to the overnight Kiev-L'viv express trains. Together with his US-educated son, Mr Genshaft has built and runs a fitness and gaming club on nearby Shevchenka boulevard and renovated a dacha and conference centre by a lake just outside the city.

But the former communist-era factory manager and construction engineer, whose re-investment of profits made in the early transition years now provides jobs for nearly 500 people in the town, is one of several Ukrainian entrepreneurs whose chequered business relations with ethnic Ukrainian US citizens have been cited in the US congress as justification for cutting US economic aid to the country. Mr Genshaft flatly denies having cheated his former partner out of a stake in the US-registered company owning the hotel.

Meanwhile, frustrated US and EU economic advisers and aid project workers say that the real deterrent to foreign investment is not the activity of local entrepreneurs but the "gate-keeper mentality" of the various local and oblast (regional) authorities.

Greasing of palms is often required to obtain permits and licenses or to ward off paralysing "inspections" by the local fire, sanitation or tax authorities, they say.

The struggle to build a modern economy largely reflects the damage caused by the Nazi and Soviet legacy. This profoundly changed the character of the once cosmopolitan pre-war city which commands the main trade routes through the Carpathian mountains and between the Baltic and the Black Sea.

While Hitler murdered most of the pre-war Jewish population and other minorities, Stalin transfered thousands of Polish-speakers westward to newly Polish territories carved out of Prussia and Pomerania after the war.

Under Soviet rule the city, with its gothic spires, world class opera house and acclaimed university, was filled by peasants and displaced workers directed to the new Soviet-built or nationalised former private enterprises on the outskirts. The local Uniate church with its orthodox Greek liturgy but allegiance to Rome was suppressed.

The tangled history of the city is mirrored in the sprawling Lychakivska cemetery where family vaults bearing German, Polish, Ukrainian and Russian names struggle for space beside more sombre monuments recalling tragic episodes in the recent past.

These include the memorial to those killed by Stalin's NKVD after Lwow and the rest of eastern Poland was forced under Moscow's wing by the 1939 Molotov-Ribbentrop pact dividing Poland between the Nazi and Soviet dictators.

Most jewish survivors emigrated during the Brezhnev years but a few remain and a New York-born rabbi conducts services in the one remaining working synagogue.

Only one wall remains of the late 16th century, Italian-designed synagogue in the old town which was burnt down by the Nazis in 1942. A small plaque and a garbage-strewn empty space behind broken railings marks the spot off a narrow street called Staro Yevreyska, or Old Jew Street, where it stood.

The cobbled road runs through the geometric grid of Italianate late renaissance palaces, town houses and baroque churches around the old market square forming the kernel of the historic city centre.

Most of the old city, like Krakow 200kms to the west, survived war and repression. Churches, closed or turned into museums during Stalin's fierce repression of the local Uniate church, have been re-opened and restored. All were full for services celebrating the Orthodox easter.

The process of systematic urban renewal has begun with the refurbishment of Shevchenka prospekt, one of the city's main thoroughfares, aided by Unesco and EU funds.

But the city budget is stretched, property ownership is often obscure and several of the city's historic houses and buildings are crumbling and abandoned. Once-grand houses, their rightful owners dead or fled, are boarded up. The sky shows through many a collapsed roof or ceiling. Once-elegant wooden and cast iron staircases sag, disfigured by missing spars and accumulated dirt.

The comparison with Krakow is instructive. A decade ago much of the historic Polish city was also dilapidated and close to collapse. But it is now part of a rapidly economically developing Poland whose political and economic renaissance has created wealth and energy to tackle a similar bitter legacy of war, occupation and Soviet-style communism.

In Western Ukraine that process is still at an early stage but it is under way.

PROFILE Kiev

Stroll up for magical history tour

First-time travellers to Kiev may reasonably expect to find a city in the process of re-inventing itself. And they will not be disappointed.

Virtually every building, church and monument built before the Bolshevik revolution is either heaped in scaffolding or has been renovated in the most glittering fashion. The impression created is of a city firmly anchored in the 19th century, desperate to forget the 20th and trying to skip directly to the 21st.

But while the city, under mayor Hribory Omelchenko, has undertaken a dizzying schedule of renovations, one thing it has not devoted much attention to is hotel space, which is likely to discomfort the several thousand delegates to the annual conference of the European Bank for Reconstruction and Development in May.

Kiev hotels boast few amenities and high prices, though there are some pleasant exceptions, such as the National Hotel on Institutskaya Street.

In the springtime, the best thing Kiev has to offer in the way of entertainment is a stroll. And the best place to start is at the top of Andreevsky Uzviz, a cobble-stoned street which winds down a hill. At the top of the hill sits St Andrew's Cathedral, the most stunning of Kiev's many churches.

Surrender to the charms – old, new, pre- and post-Soviet – of Kiev

One-third of Kiev's 30 art galleries are located on Andreevsky and at the bottom of the street lies L'Art, run by Ludmilla Berezntyskaya, who has painstakingly collected some of the best works of socialist realism to survive the Communist era.

In May, Kiev's chestnut trees are the city's main attraction and a walk through the park along Hrushevskoho Street, opposite the cabinet of ministers building, is a must.

Kiev's historical renovations make for interesting sight-seeing. Mongol Horde buffs might want to visit the foundations of the Tithe Church, which was burned to the ground by Batu Khan, Ghengis' grandson, in 1240. Another casualty of the Mongols is the wrecked, and now rebuilt, Golden Gate on Volodymyrska Street.

Orthodox Christianity enthusiasts should head directly to St Sofia's Cathedral built in 1042 and destroyed several times in the interim, as the supreme architectural expression of Kiev's spiritual and political legacy within the ancient state of Rus.

One of the most often over-looked architectural treasures in Kiev is right across the street from the president's administration building.

There sits the House of the Gargoyles, built by the industrialist Vladislav Gorodetsky in the late 19th century. Its Corinthian style colonnades crawling with monstrous lizards, dolphins, elephants and demons, the building is a monument to the architectural possibilities of cement, which Mr Gorodetsky was the first in Ukraine to mass-produce and with which he later became obsessed.

And much good it did him. Mr Gorodetsky fled Ukraine after the Bolshevik revolution, winding up in Tehran, where he designed the Shah's palace.

After a stroll through Kiev, the city's restaurants are a welcome treat.

Some excellent foreign joint ventures have opened their doors in the past few months.

Bombay Palace, a pricey Indian restaurant behind Bessarabski Market, has the best food in Kiev, albeit with the slowest service. And San Tori, a Thai/Japanese restaurant on Kontraktovaya Ploshad, is also delicious, if expensive. For more reasonable prices, try Pantagruel, next to the Golden Gate, or Vesuvio's Pizza on Reitarskaya Street.

For traditional Ukrainian food, which consists of soups, dumplings, heavy meat dishes, a home-cooked meal is still the best alternative.

Theatre in Kiev is highly variable. Check the pages of the excellent bi-weekly Kyiv Post for listings of showtimes, gallery openings and concerts.

As for night life, Kiev, like its neighbour capital Moscow, has taken full advantage of the relaxation of the strict political doctrines which, prior to this decade, had discouraged the city's young people from behaving in a provocative manner.

Those wishing to witness this unique historical moment should go to Dynamo Luxe discotheque, which has several floors of decadence to choose from.

Charles Clover

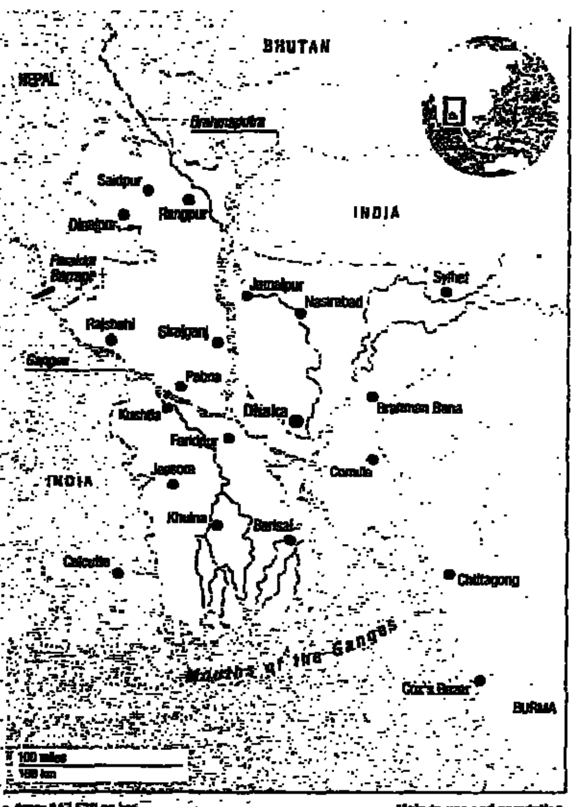
BANGLADESH

Recent discoveries have sparked an overwhelming flurry of foreign interest. Even conservative estimates suggest the country has enough gas to transform its prospects. But can it cope? **Mark Nicholson** reports

Gas finds trigger promise of riches

Constitution

- Official name: People's Republic of Bangladesh
- Form of government: Parliamentary democracy following a constitutional amendment in September 1991
- The executive: The prime minister (Sheikh Hasina Wajed) is the chief executive and appoints the cabinet (Council of Ministers); the president (Shahabuddin Ahmed) now holds a largely ceremonial post but still appoints members of the judiciary and has power to dissolve parliament
- National legislature: Jatiya Sangshad, unicameral legislature; 300 members directly elected from single territorial constituencies, another 30 seats reserved for women; legislature sits for five years unless dissolved sooner by the president
- National elections: June 12 1996 (parliamentary); next election due by June 2001
- National government: Opposition parties boycotted the election called by the government of Begum Khaleda Zia in February 1996. Following a constitutional amendment, a non-party caretaker government was sworn in to oversee fresh elections in June 1996. Sheikh Hasina Wajed's Awami League emerged with the largest number of seats in parliament and allied itself with the Jatiya Party in order to form a majority; the Jatiya Samajtantrik Dal has a representative in the cabinet
- Main political organisations: Awami League (AL); Bangladesh Nationalist Party (BNP); Jatiya Party (JP); Jamaat-e-Islami (Jamaat); Jatiya Samajtantrik Dal (JSD)



- Area: 147,570 sq km
- Population: 123.1m (1996 mid-yr provisional official estimate)
- Language: Bangali
- Currency: Taka (Tk)
- Exchange rate: 1997 average $1 = Tk43.9080; April 24 1998 $1 = Tk45.3000
- Main towns and population (1991 census)

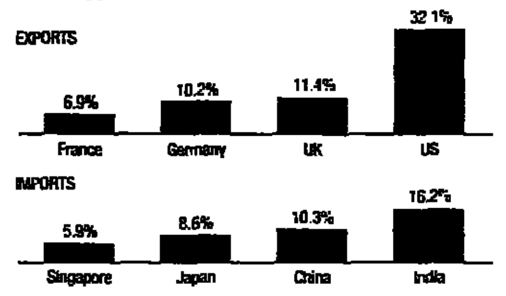
Dhaka (capital)	3,637,892
Chittagong	1,566,070
Khulna	601,051
Rajshahi	324,532

Economic summary

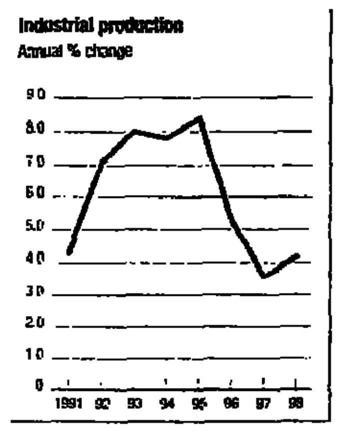
	1997 estimate	1998 forecast
Total GDP ($million)[1]	31,886	31,914
Total GDP (Tkbillion)[1]	1,462.6	1,587.7
Real GDP growth (annual percentage change)[1]	5.7[2]	4.8
Inflation (average annual percentage change in CPI)	5.8	8.0
Agricultural production (annual percentage change)[1]	8.0[2]	3.3
Foodgrain production (million tonnes)[1]	20.3[2]	20.8-21.1*
Food shortfall (million tonnes)[1]	2.26[3]	1.70-2.14*
Industrial production (annual % change)[1]	3.6[2]	4.2
Money supply, M2 (annual percentage change)	14.4	15.8
Foreign exchange reserves ($million)	1,582[3]	1,900
Total foreign debt ($million)	15,722	16,135
Current account balance (percentage of GDP)	-3.2	-3.4
Merchandise exports, fob ($million)	4,490	4,850
Merchandise imports, fob ($million)	-6,545	-7,050
Trade balance ($million)	-2,055	-2,100

* Range [1] Fiscal years ending June 30 [2] Provisional official estimate [3] Actual

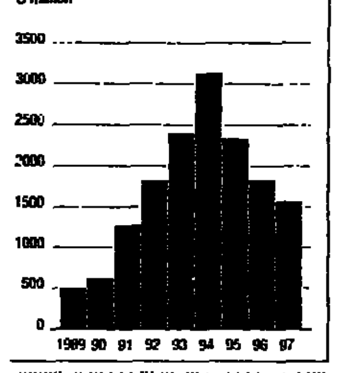
Main trading partners (estimated share of total trade to world 1996)



Industrial production
Annual % change



Foreign exchange reserves
$ million



Source: Datastream/ICV; EIU Dorgs

For the first time in Bangladesh's short history, its five-star hotels are bursting, consistently recording 100 per cent occupancy rates. Management at the Sonargaon Pan Pacific and Sheraton hotels in Dhaka are even turning down bookings.

The country's diplomatic profile is also rising. Late last month, Bill Richardson, US representative to the UN, and Derek Fatchett, UK foreign office minister, both visited Dhaka within days of each other.

Bill Clinton, US president, will be visiting Bangladesh in the autumn.

There is, altogether, a sudden unprecedented buzz about one of south Asia's poorest neighbours, a country once famously dismissed by Henry Kissenger, former US secretary of state, as a "basket case" and which may feature on the radar of westerners of a certain age chiefly as the focus in the 1970s of a charity concert led by one of the Beatles – the "Live Aid" of its time.

Bangladesh, with gross domestic product per head of $260, remains among the poorest countries on earth, although almost $30bn of foreign aid and some pioneering non-governmental organisations have heaved it some way forward since its bloody and wretched birth in 1971 after the liberation war from Pakistan. The cause for the recent change in perception, though, can be summarised largely in a word – gas.

It is oil men, power developers, bankers and gas industrialists who are occupying all the five-star rooms these days, adding to the aid workers, World Bank teams and US and European garments buyers who were otherwise Dhaka's foreign habitués. Dhaka rents are already leaping in anticipation of a gas surge. Enrolments at the American school have shot up.

Oil companies, including the biggest, believe recent discoveries suggest Bangladesh could be sitting atop world-class gas reserves – at least as much as in the UK sector of the North Sea and perhaps more than twice such reserves. This, and Bangladesh's proximity to the vast potential energy market in neighbouring India, explains why Royal Dutch/Shell, Mobil, Texaco, and more than a dozen other oil companies entered Bangladesh's latest exploration round.

But they have been waiting for results from the round since December in a process already muddied by political controversy and doubts about the country's infamously cumbersome and obstructive bureaucracy's ability to handle its intricacies.

Sheikh Hasina, prime minister of the two-year-old Awami League government, admits that the government was overwhelmed by the foreign interest. "I have no complex in admitting that we had no expertise in the matter," she says – adding that delays arose because "we did not want to make a mess".

Which raises Bangladesh's central question as it approaches the millennium. Even conservative estimates suggest the country has enough gas to transform its economic prospects – perhaps to turn it into a middle-income nation while significantly addressing the poverty which afflicts at least 36 per cent of its 127m people. But aid donors have for years questioned the government's ability to manage even existing affairs – better "governance" tops almost every agency's list of priorities in a country where the World Bank two years ago stated that the current bureaucracy "will not be able to cope" with globalisation.

So is Bangladesh equipped to make the most of its prospective resources – and to oversee the development of one of the world's biggest, fastest-moving and technically most complex global industries? It is too soon to tell. But more than one official will admit worries that Bangladesh might become "another Nigeria".

A gas rush will challenge all of Bangladesh's young and globally inexperienced institutions – starting with its brittle and divisive political system. So far there are only modest signs that the nation's two main parties, the governing Awami League and the Bangladesh Nationalist Party, which Sheikh Hasina ousted in the June 1996 polls, are learning to co-operate and make parliament function.

Personal suspicion and bitterness between the party leaders, Sheikh Hasina and the BNP's Khaleda Zia – the "two ladies" – has famously dominated Bangladeshi politics since the end of General Ershad's military rule in 1990.

While the BNP was in power, the AL boycotted parliament and led a crippling series of *hartals* – general strikes – to insist on a neutrally monitored election. The BNP finally resigned, prompting the June 1996 elections. But the BNP then boycotted parliament for six months, returning only earlier this year – and it is still organising its own *hartals*. Although both parties are still in parliament, they have yet to find a way of constituting a functioning committee system.

The BNP alleges that Sheikh Hasina is devoting governmental energies purely to reviving the memory of her father, Sheikh Mujibur Rahman, the "father of the nation", whose photograph – rather than her own – now adorns all government offices. Sheikh Hasina, who dominates her party, earlier this year said the revival of his memory was her "political priority". It is certainly a personal quest.

Her father was murdered in 1975, along with most of Sheikh Hasina's family, with, the prime minister believes, the complicity of Mrs Zia's husband, a senior military man. But such preoccupations frustrate Bangladeshi commentators and foreign watchers alike.

"Our ruling class is very small," says Sadele Khan, a columnist. "And the whole political game is an elite game".

A western diplomat adds: "Both sides seem still to be fighting the battles of the 1970s – it seems more important for them to look 20 years back than 20 years into the future."

Nevertheless, Sheikh Hasina can claim two important accomplishments during her two years in office.

Early on, she concluded a Ganges water-sharing accord with India, ending a 25-year-old dispute which had dominated and hindered Indo-Bangladeshi relations since Indira Gandhi sent in Indian troops to ensure Bangladesh's liberation.

And late last year, her government also secretly negotiated a peace pact with the tribal insurgents of the Chittagong Hill Tracts, a festering low-level conflict which

Continued on Page 2

THE ECONOMY • by Mark Nicholson

Record growth fails to resolve widespread poverty

Despite positive indicators, rapid growth has been hampered by a lack of reforms

At first sight, Bangladesh's economy is clipping along nicely. Gross domestic product growth for the fiscal year which ended last July was recently revised upwards to 5.9 per cent – a post-liberation record – and appears set to surpass 5 per cent again this year. Export growth, dominated as usual by a vigorous garments sector, is *expected to rise 18 per cent* this year to reach sales of $5.2bn.

The government's fiscal deficit, while still high at a likely 5.2 per cent of GDP this year, nevertheless looks set to undercut last year's 5.7 per cent and economists with donor agencies, including the World Bank and Asian Development Bank, say they are encouraged by *signs of a tighter* government commitment to fiscal discipline.

And there is a broad agreement among western and local economists that Bangladesh's economy, aided by relative political stability after the disruptive strikes and violence for the 18 months preceding the *1996* elections, may have raised its post-1971 growth trend.

"Overall, we are past that debacle of 1995-96 which in turn affected output in 1996-97," says Wahiddudin Mahmud, an economist at the University of Dhaka. "We're now on a path of sustained growth which would see our benchmark rate move from around 4 per cent to 5 per cent."

The problem, however, is that such growth is insufficient to make more than modest inroads on poverty. "Growth may be a little above the norm," says Kapil Kapoor, chief World Bank economist in Dhaka. "But given what Bangladesh needs to do, it's just not enough."

Quite what inroads such growth rates make on the plight of Bangladesh's poor is a *complex and controversial* thing to measure. But a forthcoming study under World Bank auspices, which defines poverty according to a country-specific set of criteria, suggests that in the past four or five years, the proportion of absolute poor *among the country's 127m* people has fallen modestly to 36 per cent of the population *from 43 per cent.*

Furthermore, the country's current growth is narrowly focused – it leans heavily on the success of the garments industry, which is raising output at around 15 per cent a year and currently earns 70 per cent of Bangladesh's hard currency.

Although manufacturing growth for the first half of the fiscal year is estimated (and most economic statistics in Bangladesh must be regarded with caution) at 12 per cent – robustly stronger than the 3.6 per cent last year – strip out the garments sector and economists believe growth elsewhere may be a more modest 5-6 per cent – much of it in a relatively lively cement and construction sector.

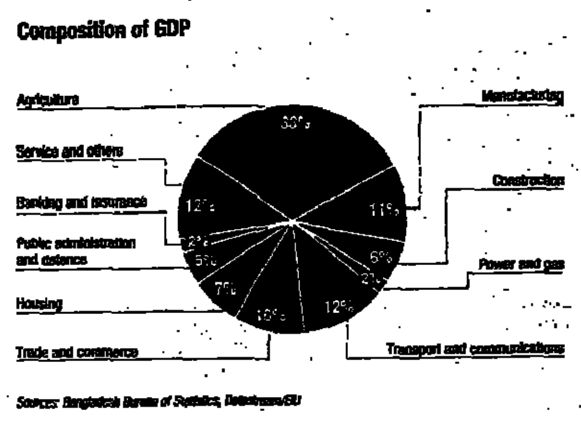
"In general, the economy *is just sitting there,*" says Forrest Cookson of the American Chamber of Commerce in Dhaka. "Everyone in the garments sector is doing well: everyone else is complaining."

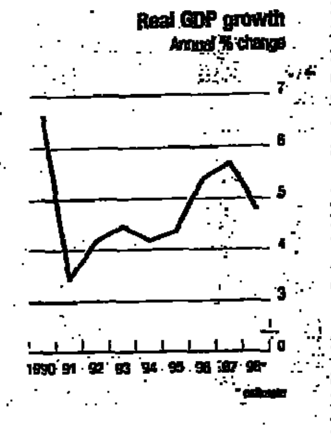
In addition, Bangladesh's external position remains weak and vulnerable, despite the contribution of garment sales and high remittances from the hundreds of thousands of Bangladeshis working in the Gulf and elsewhere; remittances which at about $1.8bn are equivalent to the country's other great external bulwark, aid flows.

Currency reserves, though modestly higher in recent weeks at $1.8bn, still cover just under three months of imports and have been in broad decline since 1995.

Like most of its south Asian neighbours, Bangladesh's relatively closed economy (the taka is not convertible for capital transactions), small exposure to foreign commercial borrowing and *limited amounts of foreign* portfolio investment, mean that it has largely weathered the financial and currency storm to the east. But the Bank of Bangladesh, the central bank, is aware of the dangers and, having allowed the taka to depreciate last year by a modest 7 per cent, has in recent months held an investment-dampening tight monetary policy to help suppress imports and hold reserves steady.

Which is one reason why, garments aside, domestic manufacturing industry is growing only modestly. Capital is in acutely short supply in Bangladesh, where long-term finance is virtually unavailable and few companies have access to overseas financing, beyond the revolving letters of credit which fuel the labour-intensive garments sector.





Sources: Bangladesh Bureau of Statistics, Datastream/EIU

Since the stock market crash last year, equity is not a viable route for most companies.

But there are more fundamental reasons why on current trends Bangladesh is restricted to growth rates of around 5 per cent, rather than the 8 or 9 per cent rates adjudged by most economists to be necessary to bite significantly into poverty levels. They are to do with the large outstanding agenda of reform – to the financial sector, the trade regime, the quality and provision of basic infrastructure, plus overhauls of both the public sector and civil administration. *In each case, the task is* daunting and in most highly political, in one of the most bitterly politically divided countries in the region.

Critical to placing Bangladesh's thin economy on a sounder footing is an expansion of industry and, in particular, of export industries – leaving *aside for now* speculation over its possible gas reserves and their potential *economic effects.*

"Why is there no industrial diversification? Look at the costs of infrastructure, costs of tariffs, costs of corruption and of bad governance – this agenda is basically the reform agenda: reducing these costs," says Mr Kapoor. With its low wage rates, likely to remain low for many years given the extent of its poverty, and *proven labour and entrepreneurial energy,* the country is widely viewed as an ideal *base for expanded light manufacturing industry.* But after almost 15 years of gradual economic reform, development of new such industries remains elusive. "We've done quite a bit of market-oriented reforms," says Mr Mahmud, "but there has so far been little response from private investment."

The reasons are manifold. In some cases, many economists concede, it may be because Bangladesh has reformed too rapidly. Many cite the fast reduction in tariff barriers, which have cut the unweighted mean tariff to 23 per cent from 89 per cent in 1997. Some economists argue the cut has been too severe for the country's weakly-based and largely first-generation industrialists. Moreover, given the big *volume of smuggled imports* from India – at least as much as the officially recorded $1.5bn – says Rehman Sobhan, director of the Centre for Policy Dialogue: "for all intents and purposes we are living in a free trade area."

Elsewhere, though, the problems are often too little reform. Power constraints, for example, are widely cited as contributing to both low output and depressed investment and, although the Awami League government has begun to open the power sector to private and foreign investment, its predecessor passed five years without making any significant provision for increased generating capacity.

More significant is the financial sector. Bangladesh's public sector and commercial banks are still weighed down by bad loans, estimated to be 30-35 per cent of their total portfolios. Donor countries have consistently pushed for sweeping reforms and improvements of the banking sector, to upgrade regulation and supervision. But progress remains slow.

Moreover, much of the bad debt represents defaults by leading, and politically powerful, Dhaka industrialists whose pursuit carries a high political risk. Without repayment of defaulted loans, the ADB estimates it would take $3bn to recapitalise the country's state-owned banks.

Perhaps most significant, however, is the broader and infinitely more testing job of reforming Bangladesh's entrenched, fast-growing and horribly inefficient bureaucracy – without which few other reforms can be implemented at all.

Reform of "governance" tops the list of every bilateral and multilateral donor, and has done so for several years. In a compendious 150-page study on public sector reform in 1996, titled *Government that Works*, the World Bank stated that "the inability of Bangladesh to get out of the low growth trap is *largely due to* the weak implementation capacity and inefficiency of public institutions, the government's inability to plan and manage key reforms and its predilection to manage economic activities at the micro-level." It concluded that in a "more competitive global environment ... the public sector, as presently constituted, will not be able to cope."

Bank, and other donor agency officials, say little has changed since that report. Which raises some fears about the otherwise brightest prospect for Bangladesh's economy in its short 27-year history: the prospect that it is sitting on world-class reserves of gas and, possibly, oil.

The country's most senior politicians and officials concede they have been overwhelmed by the foreign interest in Bangladesh's gas prospects, and have been ill-equipped technically to deal even with the bidding round for the country's remaining 15 oil and gas blocs. But the managerial complexities of the bid round will be as nothing compared to the task of negotiating *production-sharing contracts* and, should the oil companies' estimates of large reserves prove accurate, of organising, regulating, planning and co-ordinating the birth of a highly complex series of related gas pipelines, terminals and related industries.

It has already dawned on some senior officials that the risk may be that unless the country's divided politicians and entrenched bureaucrats somehow rise to meet this challenge, they will be in danger of seeing some of the world's biggest oil companies try to do the job themselves.

NATIONAL ACCOUNTS • by Mark Nicholson

Experts figure out why GDP has soared

Some economists are finding newly revised economic statistics rather difficult to explain

Bangladesh is poised for a huge 32 per cent leap in gross domestic product, powering income per person from *$254 to $336, at a* stroke making the country richer among its previously *poorer Asian neighbours* than Cambodia, Vietnam and Nepal – and even *nudging its big neighbour* India, which has a GDP per capita of $380.

At the *powering stroke of* a pen, however. The sharp jump in Bangladesh's financial fortunes is less the result of economic dynamism than of statistical revision – although the former plays some part in the improvement.

In May 1996, Bangladesh's government set up a task force to examine its economic statistics which, by universal agreement, have long been lamentably inaccurate. The Asian *Development Bank financed* this revision of national accounts and the results are *being evaluated by some* local economists.

The task force pulled *forward the base year for* some critical statistics to the 1990s rather than the mid-1980s to include emergent industries, such as the surging garments sector, re-classified some sectors and both widened coverage and improved methodology.

The findings have slightly embarrassed the reviewing economists, although they assert them soundly based in a statistically illusive land where the informal – that is to say unmeasured and *mostly unmeasureable* – economy accounts for perhaps half of economic activity.

"We're a bit worried we've been too optimistic – a 30 *per cent rise in GDP is going* to be hard to explain," says one independent local economist currently reviewing the task force's findings.

"We've been telling the government that these can become politicised numbers."

As a result, such economists are looking more closely at the figures before submitting them for final government approval.

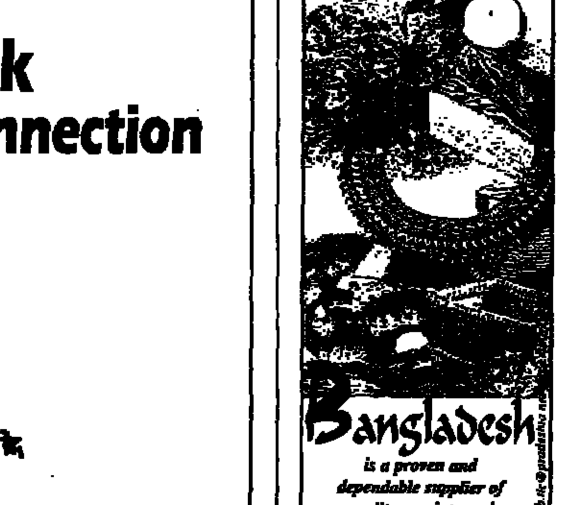
Some of the numbers, though, have already been leaked. Apart from the rise in national income, they *show a change in the* structure of Bangladesh's GDP, with the share of *agriculture falling from 30.9* per cent to 25 per cent, that of industry rising to 25 per cent from 17.6 per cent and that of the service sector sitting around 49-50 per cent – high for a country of Bangladesh's development.

Most notably, the revised figures, covering the period 1989-1995, show that the old statistics may have significantly understated Bangladesh's savings and investment rates, which had looked dismally poor in its neighbourhood. The new figures for investment as a proportion of GDP range between 17 and 19 per cent, against previous estimates of 11.5-16.6 per cent, while *savings rates are put at* 11-13 per cent, a substantial increase on earlier *estimates.*

Local economists suggest the improved income and savings figures may have much to do with Bangladesh's vigorous and enterprising non-governmental organisations, which have both stimulated local-level economic activity through micro-lending and other schemes while also rendering measurable much of the informal economy – far more so than in most *economies at similar levels* of development.

And however enviable a 32 per cent leap in GDP might sound, it remains a measure of Bangladesh's overall poverty. A GDP per capita of $336 keeps the country firmly qualified for soft loans from the International Development Agency – the World Bank sister agency which *lends* only to the world's poorest on the easiest terms.

"As far as we're concerned, it would make no difference," says Kapil Kapoor, chief World Bank economist in Dhaka. "It will still be an IDA-eligible country."



Gas finds trigger promise

Continued from Page 1

predated Bangladesh's birth.

Both issues remain politically contentious, the more nationalist BNP claiming the water deal shows the AL to be "soft" on relations with *India*. But both deals appear likely to stick.

Elsewhere, progress has *been slow. By Sheikh Hasina's* own admission, advances on a long and difficult agenda of economic reforms have been "cautious" – she claims this is because of wariness resulting from the recent crisis in south-east Asia. But there has been little movement, for instance, on recovering from eminent and politically powerful Bangladeshi businessmen the bad debts which account for more than 30 per cent of the entire *banking sector portfolio* – a necessary prelude to reforming a sick financial sector.

Neither are there perceptible efforts to address the issue of governance. A forthcoming report from the Centre for Policy Dialogue in Dhaka points out that the last government was presented with five reports on administrative reform from bilateral and multilateral donors, and none has yet garnered results. The AL did establish a Public Administration Reform Committee, but so far two chairmen have been appointed and both resigned.

"In contrast," the report says, "the pay commission awards are already implemented", raising salaries for a civil service which is swelling at twice the population *growth rate of 1.8 per cent.*

Indeed, although Bangladesh has made progress in tackling its urgent developmental problems, the government can take only part of the credit. As much, in some areas more, must go to the country's uniquely energetic and original non-governmental organisations such as Grameen Bank, a global pioneer in micro-lending to the poorest, and agencies such as Brac and Proshika, which have built a network of schools and clinics in the villages.

Progress is greatest in population control and education – both of which are linked by a dramatic rise in the political and economic participation of Bangladesh's women – which has also been catalysed by high levels of female employment in the country's *blossoming* garments industry.

Population growth rates *are almost half the 3.1 per* cent at liberation, while the fertility rate has plunged to an average 3.3 children per woman from seven. Adult literacy rates are now 38 per cent, horribly low by world standards, but an improvement on the 26 per cent in 1974. The recent South Asian Development Report noted that 40 per cent. of new schools built since 1990 were *put up by NGOs.*

Beyond the NGOs, there are other hopeful signs. One is in the diminishing political influence of the military, which had ruled Bangladesh for 15 years before the 1991 elections; Sheikh Hasina negotiated the Hill Tracts accord largely without consulting the military elite. Another, and perhaps the greatest hope, lies with Bangladesh's youthful and so far diffuse private sector, most of which is dominated by first-generation businesses.

The sector's beacon is the ready-made garments industry which has mushroomed since the early 1980s to replace a sick jute industry as Bangladesh's chief export earner. Garment sales brought home 70 per cent of export revenues last year and are growing at more than 15 per cent a year.

"The garment sector is a leader because it has showed *people how quickly things* can happen," says Runa Alam, managing director of Union Capital, the merchant bank created through a buy-out of Peregrine's assets in Dhaka.

But manufacturing must be diversified from reliance on simply garments, something which will in turn require faster movement on the currently clogged *financial and bureaucratic* reforms, along with far greater foreign investment *to bolster Bangladesh's* deplorable infrastructure.

Some local industrialists are confident. "There's a lot of talk of inefficiencies in the system," says Shahab Sattar, managing director of GMG Airlines, a private business formed immediately after the deregulation of the aviation sector last year.

"But purely from a regulatory point of view, there have been major changes – I can see significant economic changes, but it will take two or three years."

Many outsiders agree. "Unquestionably the private *sector can flourish,*" says Forrest Cookson of the American Chamber of Commerce. "*I'm completely* confident the private sector can get going – but they can't yet in an atmosphere of no power, no credit and bureaucratic abuse of the private sector."

There is also a clear awakening among senior politicians – including, apparently, Sheikh Hasina – and officials, to the need to furbish Bangladesh as a destination for foreign investment. The Board of Investment has recently devoted a floor of its offices to create a "one-stop-shop" for investor clearances and approvals. *Farooq Sobhan,* BoI executive chairman and among Bangladesh's more outward-looking bureaucrats, says some $1.8bn of foreign investment has been approved or is under implementation, including a $237m cement plant led by Lafarge, the French group, two container terminal projects worth $500m and new private sector export processing zones.

Equally, though, there are horror stories. One big US textiles group recently gave up plans to build a much-needed fabrics plant in frustration at being unable to win the necessary land clearances. Which is the sort of tale giving the oil industry reason to pause. It will take more than the obligatory payment of "speed money" *to various levels of the current* bureaucracy to install and co-ordinate the construction *of a world-class gas* industry to match Bangladesh's prospective gas reserves.

So all eyes will be on how the government finally resolves the current gas bidding round, one of the most fiercely contested in recent years, as an augury to the future. One oil executive observed: "If they cock up the bid round – if it's totally untransparent – then it will be seriously damaging to this country."

Population control is one of the areas of greatest progress

THE GARMENT INDUSTRY • by Mark Nicholson

Sector gets a rude shock

There is concern that the industry will struggle to meet competitive challenges

Industrious low-wage labour helped fuel growth in exports

The garment industry, which has almost single-handedly driven Bangladesh's export drive, recently received a rude shock – and a discomforting portent of things to come.

Canada last year removed cotton shirts from its list of items subject to quota restrictions under the Multi-Fibre Arrangement (MFA), which governs global garment trading. Seen from Dhaka, the effects were alarming.

"Almost 95 per cent of the orders straight away were switched to Chinese producers," says Mostafa Golam Quddus, president of the Bangladesh Garment Manufacturers & Exporters Association (BGMEA). "We lost out – and we're obviously concerned about this."

By 2005, under the terms of the Uruguay Round of trade agreements, all global quotas for garments should be phased out, lifting restrictions on Bangladesh's rival south and south-east Asian producers and freeing the market so only the fastest, least costly and best quality producers will prosper.

Although Bangladesh's garments industry has already shown extraordinary vitality and resilience, there are fears the industry may not yet be sufficiently mature to cope with 2005.

Since the 1980s, Bangladesh's thriving and mostly smaller-scale garments industry has bloomed from nothing to earn 70 per cent of the country's hard currency – replacing a sinking jute industry which in the 1970s earned half of Bangladeshi foreign exchange and by 1996 just 8 per cent.

Garment exports last year earned $3.5bn and, recovering from a dip caused by a row over point of origin certification with the European Union, are rising again at about 15 per cent annually. Mr Quddus sees growth reaching 20 per cent in coming years.

Such growth has arisen partly because of a generous MFA quota and European Generalised System of Preferences (GSP) market access granted by virtue of Bangladesh's low-income status. It was aided, too, in the 1980s by a shift of trade from strife-torn Sri Lanka. But it was fuelled by industrious low-wage labour and smart, energetic entrepreneurs.

Today, the BGMEA embraces 2,600 units ranging from workshops where rows of women at sewing machines cut and seam T-shirts beneath strip lights and ceiling fans, to companies turning over as much as $40m a year supplying directly US and European high street retailers.

"The garment sector is a leader in Bangladesh because it showed people how quickly things can happen here," says Runa Alam, managing director of Union Capital, a Dhaka investment bank.

The sector has also effected significant social change, chiefly by drawing so many women into work – many from rural areas, most of whom had never previously been employed. Mr Quddus estimates that 90 per cent of the sector's 1.4m employees are women.

The consequence for female "empowerment" in an otherwise male-oriented Islamic society has been exhaustively documented by aid agencies and foreign donors, which see it as transforming their social and economic status, and with it Bangladesh's fertility rate.

"Before the garments industry, the husband used to beat his wife around the house," is how Mr Quddus describes the social transformation. "These days he's waiting for her after work in a rickshaw to take her home."

There were uglier social effects, too, notably the high incidence of child labour in the industry. But the industry has concertedly addressed the problem under pressure from the US and Europe, coming some way towards solving what many garment manufacturers see as a foreign attempt to impose a non-tariff barrier to their surging exports.

The industry is also rebounding from a row with the EU over abuse of rules of origin certification. Duty-free access to the European market under its GSP rules require several degrees of local processing, and certified proof of yarn and fabric originating within Bangladesh for those gaining duty-free access under the scheme. In 1996, however, the EU opened an investigation into thousands of certificates of origin, having discovered exporters claiming GSP rights exceeding by five times the amount of yarn and fabric known to be produced in the country.

Bangladesh investigated the matter and blushingly conceded there had been widespread abuse. In a compromise, the EU has offered limited derogations from its GSP rules while Bangladesh has redoubled policing of the sector's paperwork. "We hope and believe the problems are over," says Michael Drury, European Commission ambassador in Dhaka.

Bigger challenges loom. To meet open competition after 2005, the Bangladesh industry must compete without privilege with China, India, Pakistan, Sri Lanka and south-east Asian countries which offer similarly cheap and productive labour but also higher quality clothes and greater integration of their garments industries.

The task for Bangladesh's garment makers is to manufacture more of their fabric and other inputs, increasing the "backward linkages" in the sector through investment in yarn spinning and textiles mills. Mr Quddus says just 40 per cent of the inputs – including not just yarns and textiles but also zippers, buttons and other finishing items – used by the industry are made locally. The question is whether the sector can raise the investment necessary to raise local content.

But the garments industry is dominated by first-generation businesses – the whole sector is no more than 15 years old. Most businesses have financed growth in a low-capital industry by juggling working capital, most of which comes from obtaining back-to-back letters of credit. One serious cost of this is time: because of the need to finance the import of textiles it takes manufacturers about 120 days to turn round an order for foreign buyers. In China, local businessmen say, it takes 75 days, given locally available textiles and other inputs.

Bank credit in Bangladesh is both tight and short-term and the country's ailing public banks are increasingly reluctant lenders. The stock market is in the doldrums. The BGMEA therefore pins the industry's hopes on increased foreign investment into the textiles industry – which is rising and reached $99m in the past 18 months – and, perhaps more vainly, in some leeway being granted by the World Trade Organisation (WTO).

Tofael Ahmed, minister of commerce and industry, says he will seek an immediate 30 per cent increase in quotas for Bangladesh and other low-income countries at the WTO ministerial meeting in Geneva later this month, while seeking to extend the WTO's 2005 deadline.

He is responding to some concern at home. "The quota phase-out was set in 1994; it's not in favour of the lower income countries," says Nurul Haque Sikder, chairman of the Palmal garments group which has a $40m turnover. "In 10 years, you cannot equip yourselves with all these backward linkages. We're trying, but we're very young."

PRIVATISATION • by Mark Nicholson

Pace of sell-offs falters

The programme has stalled in the face of opposition by bureaucrats and corruption

If you want to show a will to privatise, how better than to appoint someone from the private sector to head up the effort? That, at least, appeared the government's logic behind the appointment a year ago of Kazi Zafarullah, head of a $24m turnover food processing and textiles group, as chairman of Bangladesh's privatisation board.

By the time he arrives among the bureaucrats, at 9am, Mr Zafarullah has already spent an hour at his business office, to which he returns when the board, a statutory body established in 1993, closes for the day. He now works weekends with his company to keep up. At first, he says, the bureaucrats found it hard to keep up with him.

In the early months he pushed through the sales of 18 of Bangladesh's 270 remaining state-owned enterprises (SOEs), already more than the dozen privatised during the five-year tenure of the former Bangladesh Nationalist Party government. His business-like energy, rare amid Bangladesh's notorious bureaucracy, has won plaudits from aid donors.

"Its just great to have someone with such energy; he's very impressive," says the local head of one multilateral agency.

But the pace has stalled since.

"In the first six months, the bureaucrats didn't really know how fast I was moving," says Mr Zafarullah. "Then they got their act together." And that, he explains, is among the chief problems with Bangladesh's faltering privatisation programme. "Now the labour unions, the dishonest politicians, the vested interests, the bureaucrats have got together, and they're opposing privatisation."

Even within the governing Awami League, of which Mr Zafarullah is a member, there are political doubts. Although he says Sheikh Hasina, the AL prime minister to whom he also claims to be close, is "very committed" to privatisation in principle, he reckons only about a third of the party are of the same mind. "Thirty per cent are also willing to go along with it," he says, "but there are 30 per cent who don't see it as a solution."

But some solution is necessary to the fiscal deadweight of Bangladesh's inefficient and loss-making public enterprises – which include a host of interests embracing dozens of jute mills, textile mills, sugar and cement companies, chemicals, wood and furniture plants.

Mr Zafarullah reckons combined annual losses are between $500m and $600m a year. "We keep asking for donor money, but if we could take care of the SOEs we could build a bridge over the Yamuna river every year from our own resources," he says.

Privatisation has, therefore, been a consistent demand of Bangladesh's multilateral and bilateral donors, and a policy equally consistently voiced by Bangladeshi governments.

But progress to date has been mixed, not just because of bureaucratic resistance and political suspicion, but also by virtue of the quality of the enterprises on offer.

A large part of the unbundling of the widespread nationalisation of the early 1970s, under Bangladesh's first post-liberation Awami League government, was accomplished throughout the 1980s, particularly under the military rule of General Ershad. Up to 1991, the end of military rule, the government had divested about 700 enterprises, cutting the share of public enterprises in the economy to 43 per cent of total manufacturing assets from 77 per cent, according to research by the Centre for Policy Dialogue in Dhaka.

But of these enterprises, many of them ailing textiles mills or jute mills, about half have closed down since being privatised. A recent World Bank study found that 49 per cent of 497 privatised units it studied had closed. In many cases, the buyers took the assets primarily for the value of the land.

Many Bangladeshi businessmen say they are not tempted by the residual SOEs currently on offer. On the present government's list of 84 enterprises identified for privatisation, most are ailing textile, jute or sugar mills.

Moreover, the modes of privatisation are currently limited. Sales can be either by international tender or by public offer of shares – the latter at present constrained by the dismal state of the stock market after last year's spectacular crash.

This is one of the aspects of the programme that Mr Zafarullah says he aims to change. Having run into a wall of bureaucratic and political resistance, much of it from officials enjoying a "rent" from the existing state units, he believes the solution lies in circumventing the opposition by bedding the privatisation process in newly framed legislation.

With assistance from the UK-based Adam Smith Institute, a draft law has been completed which would give the Privatisation Board new legal authority. It would broaden the permissible means of privatisation and, among other things, offer some protection for bureaucrats involved in asset sales. Mr Zafarullah says that many of these bureaucrats resist privatisation partly because they fear that a change of political regime in this most politically divided of countries could open them to retrospective legal action. "Officials always have in the back of their minds what happens when the government changes," he says.

The law is expected to go before parliament within the next three months. Meanwhile, Mr Zafarullah has engaged on the delicate task of convincing the various lobbies opposed to privatisation of the programme's potential benefits. The board has already sponsored trips for MPs, bureaucrats and labour leaders to countries including Sri Lanka, Malaysia and India to expose them to examples of successful public asset sales.

Some way ahead, says Mr Zafarullah, lies the prospect of the government divesting itself of some of its more jealously guarded assets.

Private and foreign investment has been encouraged in power generation, with bids already being considered and processed for private power plants. The telecoms sector has seen the recent award of licences for private cellular telephone operators. And the government is considering a strategic sale of up to 40 per cent of Biman, the state carrier, to a foreign airline.

Eventually, Mr Zafarullah suggests, the government should also consider privatising or allowing competition to BTTB, the state-run telephone company, and perhaps offering licences for private long-distance telecoms operators.

"If we want foreign investors in this country, we have to offer them such deals – they're not going to come out of love," he says.

Mr Zafarullah says Sheikh Hasina is "very keen" to privatise these sectors. But there will be political resistance, as he also acknowledges.

"I now understand how hard it is to get privatisation moving in Third World countries, in the face of corrupt officials, politicians and union leaders. So I need allies," he says. "I need to do a bit of politics myself."

PROFILE GMG Airlines

Simple maths indicated a mind-boggling potential

When Bangladesh last year deregulated its air industry to permit domestic competition to Biman, the state carrier, simple maths indicated there was a potential opportunity.

"If you look at it, you have a country with 125m people and only four Biman aircraft servicing the entire population," says Shahab Sattar, managing director of the newly-fledged GMG Airlines. "It's mind-boggling."

Certainly, in one of the world's poorest countries, only a small fraction can afford air travel. And Biman, though profitable overall, loses an estimated $5m annually on its domestic routes.

Nevertheless, a small fraction of 125m people could – concluded Mr Sattar and his brother Nini, both pilots and directors of GMG Industrial Corporation – support a viable private airline.

"There's clearly a need for air travel in Bangladesh, and Biman is a non-starter," he says of the infamously undependable state carrier. Biman's poor domestic performance has helped make private entry into the sector politically palatable.

Last May, soon after the deregulation, Mr Sattar therefore approached Bombardier, the world's third-largest aircraft maker and specialist in smaller regional aircraft, with a proposal to help establish a private airline.

Bombardier took little time to agree, and last month three Dash 8 100 aircraft in the airline's blue, white and yellow livery – upholstered throughout in leather – began twice-daily services from Dhaka to Chittagong, the southern port city, and Silhet in Bangladesh's north-eastern corner.

"It was a very quick deal," says George Stevens, Bombardier's director of Asia-Pacific sales. "Much quicker than you'd expect to manage elsewhere in the region."

For the Toronto-based aircraft maker, GMG's proposal offered a foothold into south Asia, where Bombardier has long eyed the Indian market but had hitherto managed the sale of just one Dash 8, to the Maldives.

The Canadian company was impressed with the business record of GMG, a second-generation family business with turnover of about $15m, chiefly from consumer goods, and with GMG's business plan. It agreed to a five-year lease of the three seven-year-old Dash 8s.

"It wasn't hard for Bombardier to see that if we got our business estimates even half right we could make a real dent in the market," says Mr Sattar, a Wharton Business School graduate.

Bombardier thus effectively financed the airline's start-up in a deal worth an investment of $24m, the market price of the three 37-seater turbo-props. GMG borrowed a small amount of working capital from local banks.

Without giving details of the lease agreement, Mr Stevens says it is "industry standard", with GMG paying lease and maintenance rates, while also agreeing to a series of security requirements.

GMG also expects to lease an additional pair of 54-seater Dash 8 300 series aircraft before the end of this year – establishing what Mr Sattar eventually hopes will become a regional airline, serving not only domestic Bangladesh airports but also routes to Calcutta and the Indian north-east, Nepal and perhaps also Bhutan.

To break even, he says, GMG Airlines must reach 70 per cent capacity on a network soon to expand to include flights from Dhaka to Jessore and also from Jessore-Chittagong and Chittagong-Silhet, neither of which routes are served by Biman.

Through such additional routes, he says, the new airline could within a year expand the country's domestic air travel business by 30 per cent from the current 580,000 passengers currently carried annually by Biman.

Mr Sattar believes the airline will make a profit after a year, by which time he expects the new company to reach a turnover of $15m – absorbing even the high initial cost of having expatriate pilots and some expatriate cabin crew until the company can train local crew and pilots..

Bombardier expresses confidence that GMG will meet its business plan. And, although GMG has two local private competitors in Aero Bengal Airlines and Air Parabat, both are smaller, use older east European aircraft and lack the kind of service backing and implicit financial support available from Bombardier.

Moreover, the government has already signalled that it wishes Biman gradually to withdraw from its loss-making domestic services, to focus instead on developing its profitable Middle Eastern, UK and US routes – perhaps in strategic alliance with an international airline. "The government is keen to see GMG succeed," says a well-placed local businessman.

Indeed, the government recently offered GMG a fillip by raising Biman's domestic fares by 30 per cent, closing what at the private airline's launch had been a 60 per cent difference between GMG's fares (Tk1,795 – or $40 – from Dhaka to Chittagong, for example) and those of the state carrier.

GMG has already concluded a code-sharing agreement with British Airways, which flies five times a week into Dhaka, and it expects to get significant business in particular by ferrying the disproportionately large number of Bangladeshis living in the UK who hail from the small province of Silhet. The impending arrival of the gas industry's advance guard of engineers and drillers is also likely to boost GMG's business.

Altogether, believes Mr Sattar, the project proves what can be accomplished in Bangladesh, despite its reputation as a bureaucratic jungle for investors.

He makes the point that the domestic air deregulation came without many conditions, unlike India which required private operators to service minor and often loss-making routes to protect the existing state carrier. "The deregulation is true deregulation," he says. "There really are no limitations."

Last year, the government simultaneously permitted for the first time private operators in international air cargo and domestic helicopter services. GMG has taken out licences for both.

Mark Nicholson

ELECTRICITY • by Robert Corzine

Chronic power shortages

The industry must overcome a legacy of badly-maintained and ageing plants

For 85 per cent of Bangladesh's 125m or so people, the parlous state of the country's power generation sector is of little direct interest, given the fact that they have never had electricity and are unlikely to do so for many years to come.

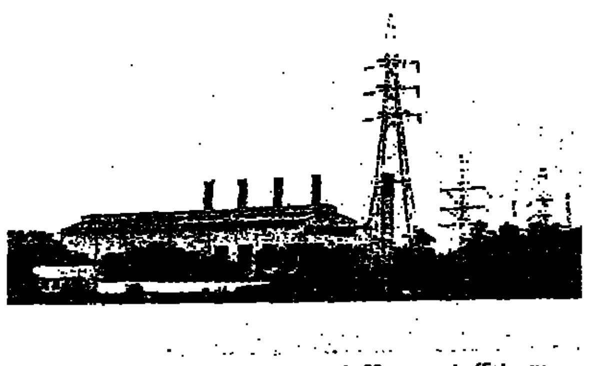
But for urban dwellers and businesses, the regular brownouts and blackouts that roll across Bangladesh's cities and towns are more than just a nuisance. The lack of reliable and secure electricity supplies is having a big knock-on effect on the economy, limiting the expansion of some industries and forcing others to generate their own power at higher costs.

Government officials say the opening of the sector to private, and especially foreign, investment should lead to early improvements. But there is widespread scepticism that the chronic power shortages will end any time soon. "Their power needs were urgent four years ago," says one western electricity executive. "They are now critical."

Mr Nuruddin Kamal, chairman of the state-owned Power Development Board (PDB) that oversees the sector, acknowledges that the system is fragile. He says the "lack of any real development plan for the sector" is partly to blame for the present situation, in which the country faces a generating deficit of 350-450MW.

"Up until 1990, we had a pretty easy life," says Mr Kamal, because foreign aid donors such as the World Bank were especially keen to fund power generation projects.

But that willingness soon waned, in large part because of rising "system losses" – a euphemism for customers' failure to pay and the widespread illegal tapping of power lines. Such losses are now running at about 45 per cent.



Some generating stations operate at only 30 per cent efficiency

The immediate problem should be eased somewhat when the new Sangu gas field in the Bay of Bengal is in full production. This will supply two gas-fired generating plants in Chittagong which have been idle because of a shortage of fuel. However, officials acknowledge that one of the plants suffers from technical problems that could undermine its ability to provide power to the electricity grid.

But even adequate fuel supplies and the provision of new, privately-owned power plants are unlikely to overcome a legacy of ageing and poorly-maintained generating stations operating at 30 per cent or so efficiency. "It's like shooting at a moving target," says Tawfiq-e-Elahi Chowdhury, the government's energy secretary, as he reviews plans to boost electricity output.

Some private sector experts believe that over the next five years the country will need to replace 30-40 per cent of its present generating capacity of about 1,900MW, even before it considers new plants to cope with a sharp rise in demand and to extend the system into more of the rural areas.

Officials admit that they are unable to close plants for extended maintenance because of the shortfall in supplies, even though that brings forward the eventual failure of such stations.

The first step in the government's plan to revitalise the industry involves the construction of four barge-mounted generating stations to alleviate the worst of the shortages. The first scheme, at Khulna, is expected to come onstream in August. But the development of the barge stations illustrates some of the problems of investing in Bangladesh's power sector.

Industry observers say the government's inexperience in drawing up power purchase agreements with the private sector and assessing the quality and capabilities of the bidders has added considerable delays to the process.

"This is a very sophisticated business," says one western power executive. "The government simply doesn't have the ability to field a skilled negotiating team." He says that for larger plants in the 350MW range "it can take four years to get the deal done. It tends to take seven years from initial talks to when the power comes onstream. That's the tragedy."

Difficulties in acquiring land have also slowed the development of the independent power sector. Such problems have undermined the ability of the promoters of the barge projects to raise money. Of the four proposed barge-mounted plants, only Khulna appears close to financial closure, according to officials and bankers.

Mr Muhammed Aziz Khan, chairman of the Summit Group which is the only Bangladeshi company to so far enter the sector, says the International Finance Corporation is to review the $108m Khulna power project on May 21 as a matter of priority. The plant's backers includes engine manufacturer Wartsilla, which has so far carried the expenses of the project on its balance sheet. Khulna power is hoping to secure 70 per cent debt financing through the IFC and an IFC-led consortium of banks.

Some economists, however, question the ability of the Dhaka government to buy power over the long term from the new independent plants, given that PDB is already selling electricity at a loss, and the costs of the barge plants in particular are considerably higher than conventional generation would be.

Mr Khan dismisses such concerns as "rubbish". He notes that "priority number one for the government is to finance the electricity sector" given its crucial role in underpinning economic growth.

He also dismisses criticism from some other power companies that the barges are inappropriate as part of a medium-term solution to Bangladesh's power needs.

The proposed barge plants will sell electricity at just over 5 cents per kilowatt hour, compared with 2.7 cents for a large combined cycle gas plant being promoted by AES of the US. "The barges are a logical and appropriate option," says Mr Khan, "especially when you compare their costs with what you lose in production by not having electricity."

Other power executives argue that although barge stations are "fine in a crisis," their backers may find it harder to justify the higher costs over the long term. "The next government might turn around and say 'Why are we getting raped when we can get power at half that cost.'"

But even with its problems, the electricity sector still attracts potential investors. MPI International, a power subsidiary of Cinergy of the US, wants to use gas from the Semutang field to fuel a land-based unit of between 80MW and 120MW, which it claims can be operational within nine months. "Our objective this year is to invest money in Bangladesh," say MPI executives.

NATURAL GAS • by Robert Corzine

Prosperity – and problems

The government has come under fire for the way it has handled licensing

The same ancient geological crash of continents that created the Himalayas may have also formed a perfect series of underground traps for natural gas in eastern Bangladesh. At least that is the hope of western geologists who believe the country may emerge as a world-class supplier of gas in the coming decades.

Reserve estimates for Bangladesh vary widely. Current proven gas reserves are a relatively modest 11 trillion cubic feet (TCF) or so. But the promising geology has led to estimates as high as 80 TCF, although many experts use a more conservative 30-50 TCF range.

That, however, would be more than enough to cover Bangladesh's domestic needs for many years to come – and supply a growing regional export market.

But the history of the country's second exploration licensing round launched last year suggests the development of Bangladesh's gas industry may not proceed all that smoothly. Critics say the government was over-ambitious in opening bidding on virtually the whole country. They also say that individual blocks – equivalent to 30 blocks in the UK sector of the North Sea – were too large.

"Their big problem now is how to extricate themselves from the mess they created," says one western diplomat in Dakha. "They should only have offered three or four choice blocks."

Tawfiq-e-Elahi Chowdhury, the senior bureaucrat in charge of the bid round, admits that the Dhaka government was unprepared for the overwhelming response by international oil companies: "We had never had a competitive bidding round before," he notes. "With hindsight, one could legitimately ask whether we should have offered as many blocks as we have."

The list of companies which responded include some of the biggest in the industry, such as Royal Dutch/Shell, Chevron, Texaco, Mobil, Total and Unocal. The fact that such large companies, which are only drawn to equally large projects, have entered the competition underscores Bangladesh's potential as a gas producer.

But the round has been marred by delays, charges that the rules have been changed in mid-process to suit the needs of some companies, and allegations that it has become politicised.

The situation is such that senior officials from both the US and British governments recently used official visits to Bangladesh to appeal to Sheikh Hasina, the prime minister, for greater transparency in the selection process.

The confusion surrounding the round stems from several factors. The first is simply the scale of the response and Bangladesh's limited administrative ability to assess the bids. The delay also allowed the political pressure being exerted in favour of specific bidders to intensify.

Diplomats also attribute part of the delay to government reluctance to take any decision that may give political ammunition to the opposition.

There has also been resistance to the bidding round from inside the bureaucracy and state sector, including Petrobangla, the national oil company. Mr Chowdhury accepts that "there has been resistance and misgivings in some quarters. When you bring in new things, people feel threatened."

The delays have also allowed the foreign companies to raise broader issues only indirectly related to the specific bids. The formal bids mainly concern the extent and speed of seismic surveys and exploration drilling programmes. But companies have also been lobbying strongly with "visions" of how they see the country's gas industry developing. These "visions" include domestic and export pipeline schemes, integrated power projects and the development of new industries based on the prospect of large-scale gas supplies.

Officials deny that such grand schemes have played a part in deciding which companies will receive exploration licences: "We've not been carried away by visions," insists Mr Chowdhury. "They will not form part of the contracts ... as of now these are non-issues."

Politicians, diplomats and industry observers are not so sure. They wonder whether Bangladeshi ministers and officials fully comprehend the complexity of some of the oil company agendas.

Some companies have argued that Bangladesh would be better off selecting a limited number of mainly big foreign oil companies to develop the industry in a co-ordinated way. But some officials and politicians see that as being akin to ensuring that the gas sector will be dominated by a few companies.

In recent months, the Awami League government has indicated that it will opt for as wide a spread of participants as possible, even if that puts yet more strain on an already overwhelmed bureaucracy.

The potential for misunderstanding is magnified by uncertainty over gas exports. Those foreign companies with existing operations in Bangladesh, such as the UK's Cairn Energy, Shell and Occidental of the US, have projects aimed at supplying the domestic market. Many observers believe the three companies have sufficient reserves from existing fields and prospects to meet domestic demand for at least a decade. That means any new discoveries could be available for export. But the official policy is that Bangladesh needs a much more detailed idea of its eventual gas reserves before committing itself to any export schemes. There is also a natural wish to see as many gas-based industries as possible develop in Bangladesh.

Sheikh Hasina: appeals from British and US officials

Some officials and politicians are also more attracted to the idea of exporting the gas in the form of electricity generated in the country.

Privately politicians from both the ruling Awami League and the opposition Bangladesh National Party say a pragmatic approach to gas exports is likely to emerge, especially if there are several big discoveries in the early stages of exploration.

The need to diversify the country's export base may also dictate the timing of any gas exports: "Eventually they will be compelled to export gas for economic reasons," says one Dhaka-based diplomat. There is certainly a ready market in India, where energy demand is far outpacing domestic supplies.

Industry executives say India is ready to buy Bangladeshi gas now if it was available. Cairn, operator of the new Sangu field near Chittagong, estimates that reserves of about 7 TCF would be enough to supply a pipeline carrying between one billion cubic metres and two billion cubic metres a day to power stations and industry in eastern India. That would probably earn the government about $500m a year.

But the big test for Bangladesh will be whether it can develop the expertise needed to oversee the creation of such a politically sensitive and technically-demanding industry.

"They need to ensure that it doesn't get captured by short-sighted or greedy people," says one western expert.

Off-shore find provoked international interest

Operators of offshore oil and gas platforms have to take many factors into account when designing such structures, writes Robert Corzine. The likely effects of wind, waves and violent storms must all be reflected in the design, along with any local peculiarities, such as the presence of heavy ship traffic. However, few offshore operators have had to plan for possible pirate attacks.

But in the Bay of Bengal the threat of being plundered by pirates is real, so the builders of the Sangu platform, sitting on top of Bangladesh's newest gas field, had to factor that possibility into their design.

Special security measures have been employed to deter attacks on the normally unmanned facility. In addition, crewmen on board the field's standby vessel, which constantly patrols around the platform, have been armed.

Sangu is unique in other ways as well. It was the discovery that triggered the present wave of international interest in Bangladesh's gas industry. Lying in just 8m of muddy water in the Bay of Bengal, about 50km off the coast, the field is set to increase the country's gas output by 25 per cent.

Discovered by Cairn Energy in 1996 and developed by a consortium that includes Cairn, Royal Dutch/Shell, Halliburton of the US and Petrobangla, the state energy company, it is the country's first offshore field. Its wells have proved particularly prolific, with especially high flow rates.

Cairn executives say Sangu may also prove to be much larger than the official reserve estimate of 848bn cu ft, or the present best estimate of just over 1 trillion cu ft (TCF), which Cairn describes as "conservative."

Executives hope that gas will be discovered in especially deep sections of the geological trench of which Sangu is a part. "If it does, then Sangu's ultimate reserves could be another 1TCF-2TCF," according to Bill Gammell, Cairn's chief executive.

The consortium has already planned for expansion. The pipeline linking the field with an onshore processing facility can handle 500m cu ft a day; more than double the initial output of about 200m cf/d.

But Sangu's development has not been entirely smooth and free of controversy. The cost of the project mushroomed from an original estimate of $188m to between $250m and $260m. "We were over-ambitious," admits Michael Watts, Cairn's exploration director. The cost overruns led to critical press comment and suggestions of profiteering, charges hotly denied by Cairn.

The development of the field has also been linked in the press to higher domestic gas prices in Bangladesh. Cairn executives deny such linkages, and note that the price for Sangu gas is set at a discount to that of high sulphur fuel oil in Singapore, which over the past year has traded at a considerable discount to leading international crude price markers such as Brent Blend or West Texas Intermediate.

They say Sangu gas prices are also much lower than those that apply to the company's fields in neighbouring India.